6. Changed the useful life of motor vehicles from six years to four years (as discussed in example-1 above)
7. A change of depreciation method from straight line to reducing balance (as discussed in example-1 above)
8. Revising the remaining useful life of a depreciable asset (as discussed in example-1 above)
9. Warranty provisions.

Disclosures of change in accounting estimate [Para 39]

The nature and amount of a change in an accounting estimate that has an effect:

- in the current period or
- in future periods (if practicable)

If effect in future periods is impracticable to estimate it shall be disclosed.

LO3: PRIOR PERIOD ERRORS

Prior period errors - Definition [Para 5]

Prior period errors are omissions/misstatements for one or more prior periods because of failure to use information that:

a) was available when financial statements were prepared; and
b) could reasonably be expected to have been obtained

Treatment/Apply change

Retrospective restatement (Past + current + future years) and disclosure is required

Retrospective restatement [Para 5]

Correction of recognition, measurement and disclosures of amounts of F/S as if prior period error had never occurred.

We restate the figures and provide disclosures as well.

Impracticability in retrospective restatement

Retrospective restatement might be impracticable. In this case a company must apply it from earliest period possible. This may be the current period.

Examples of Prior year error

1. In last year's financial statements, inventories were understated by a material amount due to system error.
2. Repair was capitalized in previous year.
3. effects of mathematical mistakes,
4. mistakes in applying accounting policies,
5. oversights or misinterpretations of facts, and
6. Fraud.
7. Under/Over Statement due to system error.
8. Wrong classification of an item e.g an expense that has to be accounted for under COS was inadvertently categorized in Administrative expenses.

Disclosures of Prior year error [Para 49]

1. Nature of error
2. For each **prior period presented** the amount of the adjustment to each line item in the financial statements and basic and diluted EPS.
3. Correction at start of previous year
4. If retrospective restatement is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

04: OTHER ASPECTS

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users. Materiality depends on the **size** and **nature** of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Limitation on retrospective application/restatement

It might be impracticable to retrospectively apply an accounting policy or correct an error.

Impracticable

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts.

There are **different degrees** of impracticability.

1. **Period specific effect**

   It might be impracticable to determine the effect of changing an accounting policy on comparative information for one or more prior periods presented.

   In this case a company must apply the new accounting policy to the carrying amounts of assets and liabilities (and therefore equity) as at the beginning of the earliest period for which retrospective application is practicable. This may be the current period.

2. **Cumulative effect**

   It might be impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy. So a company will apply the new policy prospectively.

Professional Judgement

The professional judgement should be based on:

a) standards and interpretations on similar issues;

b) the definitions, recognition criteria and measurement concepts in the Conceptual Framework; and on condition that they do not conflict with the standards and interpretations on similar issues and the Conceptual Framework, we are also allowed to consider recent pronouncements from other standard setting bodies, other accounting literature and industry accepted practices.

IAS-08
PRACTICE SET QUESTIONS

Question-1

During 2003, a revised IFRS on borrowing costs (IAS 23) was published. The company had previousl been expensing borrowing costs as a period cost, but the revised IFRS required that all borrowing costs be capitalized to the related asset. The borrowing costs were all incurred on construction of a plant. The revised IFRS provided transitional provisions that allowed the company to capitalize the costs from year beginning on or after 2004, or before this date, if preferred. This entity choose to capitalize the borrowin costs from the earliest date possible. The plant is not yet available for use. The effect of this change is a follows:

	2001 Rs.	2002 Rs.	2003 Rs.
Interest expense			
Old policy	15,000	17,000	9,00
New policy	0	0	

The following drafts were produced before adjusting for the change in accounting policy:

Draft statement of comprehensive income **For the year ended 31st December 2003 (Extracts)**	**2003** **Rs.**	**2002** **Rs.**
Profit	455,000	380,00

Draft statement of financial position **For the year ended 31st December 2003 (Extracts)**	**2003** **Rs.**	**2002** **Rs.**	**2001** **Rs.**
Assets			
Plant	500,000	450,000	300,00
Equity			
Retained earnings	955,000	500,000	120,00

The construction of the plant is not yet complete.

Required:

Prepare relevant extracts (including comparative figures) for the year ended 31 December 2003 related t the following:

(a) Statement of financial position

(b) Statement of profit or loss

(c) Statement of changes in equity

(d) Change in Accounting Policy note

(e) Pass the journal entries

Question-2

Zafar Limited is engaged in manufacturing of spare parts for motor car assemblers. The audited financial statements for the year ended December 31, 2014 disclosed that the profit and retained earnings were Rs. 30 million and Rs. 102 million respectively. The draft financial statements for the year show a profit of Rs. 28 million. However, following adjustments are required to be made:

(i) The management of the company has decided to change the method for valuation of raw materials from weighted average to FIFO. The value of inventory under each method is as follows:

	FIFO	Weighted Average
	Rs. m	Rs. m
December 31, 2013	47.0	41.5
December 31, 2014	47.0	50.0
December 31, 2015	54.5	62.0

Required

Produce an extract showing the movement in retained earnings, as would appear in the statement of changes in equity for the year ended December 31, 2015.

uestion-3

tif limited is engaged in manufacturing of spare parts for motor car assemblers. The audited financial tatements for the year ended December 31, 2014 disclosed that the profit and retained earnings were Rs. 0 million and Rs. 124 million respectively. The draft financial statements for the year show a profit of s. 48 million. However, following adjustments are required to be made:

he management of the company has decided to change the method for valuation of raw materials from FO to FIFO. The use of this method was permitted by the standard and it should be accounted for trospectively. The value of inventory under each method is as follows:

	FIFO	LIFO
	Rs. m	Rs. m
ecember 31, 2013	45.0	48.0
ecember 31, 2014	57.0	52.0
ecember 31, 2015	60.5	56.0

equired

oduce an extract showing the movement in retained earnings, as would appear in the statement of anges in equity for the year ended December 31, 2015.

uestion-4

ner limited (UL) is engaged in the manufacturing and sale of textile machinery. Following are the draft tracts of the statement of financial position and the statement of comprehensive income for the year ded 30 June 2015:

atement of Financial Position

	2015	2014
	Rs. m	Rs. m
operty, plant and equipment	190	120
etained earnings	280	150

atement of comprehensive income

	2015	2014
	Rs. m	Rs. m
rofit before taxation	130	110

Following additional information has not been taken into account in the preparation of the above financial statements:

Cost of machinery amounting to Rs. 15 million was erroneously debited to the repairs on 31 December 2013. The estimated useful life of the machine is 5 years.

Required:

Prepare relevant extracts (including comparative figures) for the year ended 30 June 2015 related to the following:

(a) Statement of financial position
(b) Statement of comprehensive income
(c) Statement of changes in equity
(d) Correction of error note

Question-5 (change in estimated useful life: the 'reallocation method')

Machinery was purchased on 1 January 20X1, on which date it was estimated to have a useful life of 5 years and a nil residual value. The carrying amount on 31 December 20X2 was as follows:

	Rs.
Cost (1/1/20X1)	500,000
Accumulated depreciation	(200,000)
Net carrying amount (31/12/20X2)	300,000

On the 1/1/20X3, the remaining economic useful life was estimated to be 2 years.

Required:

Provide the necessary journal entries assuming that the depreciation had already been processed for 20X3 (i.e. before the change in estimate).

Question-6 (change in estimated residual value: re-allocation method)

Machinery was purchased on 1 January 20X1, on which date it was estimated to have a useful life of 5 years and a nil residual value. The carrying amount on 31 December 20X2 was:

	Rs.
Cost (1/1/20X1)	500,000
Accumulated depreciation	(200,000)
Net carrying amount (31/12/20X2)	300,000

On the 1/1/20X3, the residual value was re-estimated to be Rs.90 000.

Required:

Show the journal entries assuming that depreciation had already been processed for 20X3.

Question-7

ABC Ltd. purchased an asset costing Rs. 20,000 on 1.1.2007. Its useful life is 10 years and its residual value is Rs. 5,000. On 1.1.2009 it is decided that remaining life is 4 years with a new residual value of Rs. 6,000.

Year end is December 31.

Required:

Calculate depreciation for 2007, 2008, 2009 and 2010.

Question-7(a)

A company uses straight line method with a rate of 12.5% on an asset costing Rs. 50,000 which is purchased on 1.1.2005. Its residual value is Rs. 10,000. On 1.1.2007, the company decided to change the method to WDV using rate of 15%.

Required:

Calculate depreciation expense for 2005, 2006, 2007and 2008. Year end is December 31.

uestion-7(b)

n entity owns an asset costing Rs. 50,000 which is purchased on 1.1.2010. Rate of depreciation is 28% nder written down value method. On 1.1.2012 entity decided new rate of 40% without changing method f depreciation.

equired:

alculate depreciation for 2010, 2011, 2012 and 2013. Year end is December 31.

uestion-7(c)

Ir. Aamir purchased an asset on 1.1.2012 with a life of 10 years. Its cost is Rs. 50,000 and residual value Rs. 5,000. On 1.1.2014 he decided to change the life to a total of 4 years and a new residual value of s. 2,000. Year end is December 31 and method is straight line.

equired:

alculate depreciation expense for 2012, 2013, 2014 and 2015.

uestion-7(d)

Ir. Inzamam-ul-haq has purchased an asset on 1.1.2008 for Rs. 70,000 whose residual value is s. 10,000 at the end of useful life of six years. On 1.1.2010 he decided to change the method to WDV sing rate of 33.12%.

equired:

alculate depreciation expense for the first 6 years of asset's life?

uestion -7(e)

Ir. Inam has purchased an asset on 1.1.2007 for Rs. 80,000 whose residual value is Rs. 10,000 and rate f depreciation is 10% WDV. On 1.1.2009 it is decided to change the method to straight line with a emaining life of 5 years and new residual value of Rs. 5,000.

equired:

alculate depreciation expense for first 4 years.

uestion-7(f)

Mr. Omer purchased a plant costing Rs. 50,000 on 1 January 2009. Its expected useful life is 10 years vith a residual value of Rs. 6,000. At start of year 2011 company decided to change the life to 7 years in otal and having a residual value of Rs. 2,000 at the end of life.

Method used is S.L.

equired:

alculate depreciation expense for year 2009, 2010, 2011 and 2012. Year end is December 31.

uestion-7(g)

Ir. Musa purchased a furniture costing Rs. 200,000 on 1.1.2011. Rate of Depreciation decided by ompany is 20% using WDV method. The residual value estimated on 1.1.2011 is Rs. 10,000.

he company decided on 1.1.2013 that depreciation method should be S.L with a residual value of s. 6,000 at the end of its remaining useful life of 4 years.

equired:

alculate depreciation expense for 2011, 2012, 2013 and 2014. Year end is 31 December.

uestion-8

We purchased an asset on 1-1-18 for Rs.125. Life is 4 years. Residual value is Rs.5.

On 1-1-19 it is estimated that remaining life is 2 years only with new residual value of Rs. 3.

equired:

repare “note for change in estimate” for the year ended 31-Decmeber-2019?

PRACTICE SOLUTIONS

Answer-1

a)

Statement of Financial position (Extracts only)
As on 31 December, 2003

	2003	Restated 2002	Restated 2001
Assets			
Plant (500,000 + 15,000 + 17,000 + 9,000):(450,000 + 15,000 +17,000):(300,000 + 15,000)	541,000	482,000	315,000
Equity			
Retained earnings (c)	996,000	532,000	135,000

b)

Statement of Comprehensive Income (Extracts only)
For the year ended 31 December, 2003

	2003	Restated 2002
Profit for the year (455,000 + 9,000) : (380,000 + 17,000)	464,000	397,000

c)

Statement of Changes in Equity (Extracts only)
For the year ended 31 December, 2003

	Retained earnings
Balance as on 1/1/02	120,000
Effect of change in Accounting Policy	15,000
Balance as on 1/1/02 –Restated	135,000
Profit after tax-2002 – Restated	397,000
Balance as on 1/1/03 – Restated	532,000
Profit after tax-2003	464,000
Balance as on 31/12/03	996,000

d)

Notes to the financial statements
For the year ending 31 December 2013

Accounting policies

Borrowing costs
Borrowing costs are capitalized to qualifying assets. This represents a change in accounting policy.

Change in accounting policy
The company changed its accounting policy from expensing borrowing costs as they are incurred to capitalizing borrowing costs to plant, a qualifying asset.
The change was made to comply with the revised *IAS 23 Borrowing costs* issued during the year. The effect of the change in accounting policy is as follows:

Effect on line items of Income statement

	2003	2002
Decrease in financial charges	9,000	17,000
Increase in profit for the year	9,000	17,000

Effect on line items of balance sheet

	2003	2002	2001
Increase in plant	41,000	32,000	15,000
2003: (15,000 + 17,000 + 9,000)			
2002: (15,000 + 17,000)			
2001: (15,000)			
Increase in Retained earnings	41,000	32,000	15,000

e)

Accounting entries

Date	Particulars	Dr.	Cr.
1/1/2003	Plant (15,000 + 17,000)	32,000	
	Retained earnings (bal.)		22,400
	Current tax payable (4,500 + 5,100)		9,600
	(Interest expense wrongly written off now being rectified)		
31/12/03	Plant	9,000	
	Interest expense		9,000
	(Interest expense wrongly written off now being rectified)		

(W-1) Journal entries by opening up books of each year

Date	Particulars	Dr.	Cr.
31/12/01	Plant	15,000	
	Interest expense		15,000
	(Interest expense wrongly written off now being rectifying)		
31/12/02	Plant	17,000	
	Interest expense		17,000
	(Interest expense wrongly written off now being rectifying)		
31/12/03	Plant	9,000	
	Interest expense		9,000
	(Interest expense wrongly written off now being rectified)		

Answer-2

Zafar Limited
Statement of Changes in Equity (Extracts)
For the year ended December 31, 2015

		Rs. in 'm'
Opening retained earnings 1.1.14	(W-2)	72
Effect of change in Accounting Policy	(W-1)	5.5
Opening retained earnings 1.1.14 – restated		77.5
Profit for 2014 – restated	(30 - (W-1) 8.50)	21.5
Closing retained earnings 31.12.14 – restated		99.0
Profit for 2015	(28 - (W-1) 4.5)	23.5
Closing retained earnings 31.12.15		122.5

(W-1) Impact of adjustments on profit

	2015	2014	2013
Closing stock of 2013		(5.5)	5.5
Closing stock of 2014	3.0	(3.0)	
Closing stock of 2015	(7.5)		
Adjustment required in profit	(4.5)	(8.5)	5.5

(W-2) Calculation of opening unadjusted retained earnings on 1.1.14

Retained earnings

Dr.			Cr.
		1.1.14 b/d (bal.)	72
		Profit	30
31.12.14 c/d	102		

Answer-3

Atif Limited
Statement of Changes in Equity (Extracts)
For the year ended December 31, 2015

		Rs. in 'm'
Opening retained earnings 1.1.14	(W-2)	74
Effect of change in accounting policy	(W-1)	(3)
Opening retained earnings 1.1.14 – restated		71.0
Profit for 2014 – restated	(50 + (W-1) 8.0)	58.0
Closing retained earnings 31.12.14 – restated		129.0
Profit for 2015	(48 - (W-1) 0.5)	47.5
Closing retained earnings 31.12.15		176.5

(W-1) Impact of adjustments on profit

	2015	2014	2013
Closing stock of 2013		3.0	(3.0)
Closing stock of 2014	(5.0)	5.0	
Closing stock of 2015	4.5		
Adjustment required in profit	(0.5)	8.0	(3.0)

(W-2) Calculation of opening unadjusted retained earnings on 1.1.14

Retained earnings

Dr.			Cr.
		1.1.14 b/d (bal.)	74
		Profit	50
31.12.14 c/d	124		

Answer-4

a)

Umer Limited
Statement of Financial Position (Extracts)
As at June 30, 2015

		2015	Rs. in 'million' Restated 2014
Property, plant and equipment		200.5	133.5
2014	(120 + 15 – 1.5)		
2015	(190 + 15 – 1.5 - 3)		
Retained earnings		290.50	163.50

b)

Umer Limited
Statement of Comprehensive income (Extracts)
For the year ended June 30, 2015

		2015	Rs. in 'million' Restated 2014
Profit	(130 - 3) : (110 + 15 – 1.5)	127.0	123.5

c)

Umer Limited
Statement of Changes in equity (Extracts)
For the year ended June 30, 2015

		Rs. in 'million'
Opening retained earnings 1.7.13	(W-3)	40.0
Profit for 2014 – Restated		123.50
Closing retained earnings 30.6.14- Restated		163.50
Profit for 2015		127.00
Closing retained earnings 30.6.15		290.50

d)

Umer limited
Notes to the financial statements (Extracts)
For the year ended 30 June 2015

Correction of error

During the year ended 30 June 2014, the cost of machinery to Rs. 15 million was erroneously debited to the repairs. The effect of this error is as follows:

Effect on line items of Income statement

	2014
Decrease in repair expense	15
Increase in depreciation expense	1.5
Increase in profit	13.5

Effect on line items of balance sheet

		2014
Increase in Property, plant and Equipment	(+15 - 1.5)	13.5
Increase in Retained earnings	(+ 13.5)	13.5

(W-1) Journal entries by opening up books of each year

2014

Particulars	Dr.	Cr.
Machine Repair expense	15	15
Depreciation expense (W-2) Machine	1.5	1.5

2015

Particulars	Dr.	Cr.
Depreciation expense (W-2) Machine	3	3

(W-2) Calculation of depreciation

Machinery debited to repair on 31 Dec. 13		15.0
Less: Depreciation (30.6.14)	(15/5) x 6/12	(1.5)
WDV on 30.6.14		13.5
Less: Depreciation (30.6.15)	(15/5)	(3.0)
WDV on 30.6.15		10.5

(W-3) Calculation of opening retained earnings on 1.7.13

Dr. Retained earnings Cr.

		1.7.13 b/d (bal.)	40
		Profit	110
30.6.14 c/d	150		

Answer-5

Depreciation for the year ended 31/12/03 based on new estimate

$$= \frac{\text{WDV - new residual value}}{\text{Remaining useful life}} = \frac{(300{,}000 - 0)}{2} = 150{,}000$$

Date	Particulars	Dr.	Cr.
31-12-03	Depreciation expense (W-1) Accumulated depreciation (Recording of incremental depreciation expense)	50,000	50,000

(W-1) Calculation

Correct depreciation	150,000
Wrong depreciation already charged (500,000/5)	(100,000)
Further depreciation to be recorded	50,000

Answer-6

Depreciation for the year ended 31/12/03 based on new estimate

$$= \frac{\text{WDV} - \text{new residual value}}{\text{Remaining useful life}} = \frac{(300{,}000 - 90{,}000)}{3} = 70{,}000$$

Date	Particulars	Dr.	Cr.
31-12-03	Accumulated depreciation	30,000	
	Depreciation expense		30,000
	(Reversal of excess depreciation charged)		

(W-1) Calculation

Correct depreciation	70,000
Wrong depreciation already charged (500,000/5)	(100,000)
Depreciation to be reversed	30,000

Answer-7

Depreciation – 2007 $= \frac{\text{Cost} - \text{RV}}{\text{Life}}$ $= \frac{20{,}000 - 5{,}000}{10}$ = 1,500

Depreciation – 2008 $= \frac{20{,}000 - 5{,}000}{10}$ = 1,500

WDV at the time of change in estimate = 20,000 – 1,500 – 1,500 = 17,000

Depreciation – 2009 $= \frac{\text{WDV} - \text{new residual value}}{\text{Remaining life}}$ $= \frac{17{,}000 - 6{,}000}{4}$ = 2,750

Depreciation – 2010 $= \frac{17{,}000 - 6{,}000}{4}$ = 2,750

Answer-7(a)

Depreciation – 2005 = (50,000 – 10,000) x 12.5% = 5,000
Depreciation – 2006 = (50,000 – 10,000) x 12.5% = 5,000
WDV of asset at the time the method is changed. = 40,000
WDV = 50,000 – 5,000 – 5,000

WDV		40,000
WDV(1.1.2007)		
Less: Depreciation (2007)	(40,000 x 15%)	(6,000)
WDV (1.1.2008)		34,000
Less: Depreciation (2008)	(34,000 x 15%)	(5,100)
		28,900

Answer-7(b)

Cost	(1.1.2010)		50,000
Depreciation	(2010)	(50,000 x 28%)	(14,000)
WDV	(1.1.2011)		36,000
Depreciation	(2011)	(36,000 x 28%)	(10,080)
WDV	(1.1.2012)		25,920
Depreciation	(2012)	(25,920 x 40%)	(10,368)
WDV	(1.1.2013)		15,552
Depreciation	(2013)	(15,552 x 40%)	(6,221)
WDV	(31.12.2013)		9,331

Answer-7(c)

Depreciation 2012 $= \frac{\text{Cost} - \text{Residual value}}{\text{Life}} = \frac{50,000 - 5,000}{10} = 4,500$

2013 $= \frac{\text{Cost} - \text{Residual value}}{\text{Life}} = \frac{50,000 - 5,000}{10} = 4,500$

Depreciation 2014 $= \frac{\text{WDV} - \text{new residual value}}{\text{Remaining life}} = \frac{41,000 - 2,000}{2} = 19,500$

2015 $= \frac{\text{WDV} - \text{new residual value}}{\text{Remaining life}} = \frac{41,000 - 2,000}{2} = 19,500$

(W-1) WDV at the time of change in estimate

$= 50,000 - 4,500 - 4,500$

$= 41,000$

Answer-7(d)

Depreciation 2008 $= \frac{\text{Cost} - \text{Residual value}}{\text{Life}} = \frac{70,000 - 10,000}{6} = 10,000$

2009 $= \frac{\text{Cost} - \text{Residual value}}{\text{Life}} = \frac{70,000 - 10,000}{6} = 10,000$

Calculation of WDV

WDV		(1.1.2010)		50,000
Less:	Depreciation	(31.12.10)	(50,000 x 33.12 %)	(16,560)
WDV		(1.1.2011)		33,440
Less:	Depreciation	(31.12.11)	(33,440 x 33.12%)	(11,075)
WDV		(1.1.2012)		22,365
Less:	Depreciation	(31.12.12)	(22,365 x 33.12%)	(7,407)
WDV		(1.1.2013)		14,958
Less:	Depreciation	(31.12.13)	(14,958 x 33.12%)	(4,954)
WDV		(31.12.13)		10,004

(W-1) WDV of asset at the time of change in estimate

$= 70,000 - 10,000 - 10,000$

$= 50,000$

Answer-7(e)

Cost	(1.1.07)		80,000
Less: Depreciation	(31.12.07)	(80,000 x 10%)	(8,000)
WDV	(31.12.07)		72,000
Less: Depreciation	(31.12.08)	(72,000 x 10%)	(7,200)
WDV	(31.12.08)		64,800

Depreciation 2009 $= \frac{64,800 - 5,000}{5} = 11,960$

Depreciation 2010 $= \frac{64,800 - 5,000}{5} = 11,960$

Answer-7(f)

Depreciation – 2009 $= \frac{\text{Cost} - \text{RV}}{\text{Life}} = \frac{50{,}000 - 6{,}000}{10} = 4{,}400$

Depreciation – 2010 $= \frac{\text{Cost} - \text{RV}}{\text{Life}} = \frac{50{,}000 - 6{,}000}{10} = 4{,}400$

Depreciation – 2011 $= \frac{\text{Book value} - \text{new residual value}}{\text{Remaining life}} = \frac{41{,}200\ (\text{W-1}) - 2{,}000}{5} = 7{,}840$

Depreciation – 2012 $= \frac{\text{Book value} - \text{new residual value}}{\text{Remaining life}} = \frac{41{,}200 - 2{,}000}{5} = 7{,}840$

(W-1) Book value at the time estimate is changed

$= 50{,}000 - 4{,}400 - 4{,}400$

$= 41{,}200$

Answer-7(g)

Cost			200,000
Depreciation	(31.12.2011)	(200,000 x 20%)	(40,000)
WDV	(31.12.2011)		160,000
Depreciation	(31.12.2012)	(160,000 x 20%)	(32,000)
WDV	(31.12.2012)		128,000

Depreciation – 2013 $= \frac{\text{Book value} - \text{new RV}}{\text{Remaining life}} = \frac{128{,}000 - 6{,}000}{4} = 30{,}500$

Depreciation – 2014 $= \frac{\text{Book value} - \text{new RV}}{\text{Remaining life}} = \frac{128{,}000 - 6{,}000}{4} = 30{,}500$

Answer-8

Co. X
Notes to the financial statements
For the year ending 31 December 2019

Change in estimate note

During 2019 estimate of life is revised from 5 to 4 years and residual value is revised from Rs.5 to Rs. 3. The (increase)/ decrease caused by the change in estimate is as follows:

• Decrease in PBT current year	16
• Increase in PBT future years	14

Current year					
Depreciation (46-30)	16	Increase	Profit	16	Decrease
Future years					
Depreciation	16	Decrease	Profit	16	Increase
Residual value	2	Decrease	Profit	2	Decrease
			Profit	14	Increase

(W-1)

Calculation of depreciation

Depreciation – 2018 $= \frac{\text{Cost} - \text{RV}}{\text{Life}} = \frac{125 - 5}{4} = 30$

Depreciation – 2019 (old estimate) $= \frac{\text{Cost} - \text{RV}}{\text{Life}} = \frac{125 - 5}{4} = 30$

Depreciation – 2019 (new estimate) $= \frac{\text{WDV on 1-1-19} - \text{new residual value}}{\text{Remaining life}} = \frac{95 - 3}{2} = 46$

CHAPTER 6
IAS-08
PAST PAPER QUESTIONS

Question- 1

The following information pertains to draft financial statements of Pak Ocean Limited (POL) for the year ended 31 December 2014.

(i)

	2014	2013
	---- Rs. in million ---	
Net profit for the year	78	52
Incremental depreciation on revaluation of property, plant and equipment	1.5	2.3
Revaluation surplus arose during the year	10	12

(ii) Installation of an assembly plant was completed in December 2012 at a cost of Rs. 60 million and it was ready for use on 1 February 2013. However, depreciation for the year ended 31 December 2013 amounting to Rs. 4.5 million was worked out from the date of production i.e. 1 April 2013. The mistake was corrected by adjusting the profit and loss account for the year ended 31 December 2014.

(iii) Shareholders' equity as at 1 January 2013 was as follows:

	Rs. in million
Share capital (Rs. 100 each)	200
Retained earnings	45

On 30 November 2014, POL issued 25% right shares to its ordinary shareholders at Rs. 120 per share.

(iv) Cash dividend and bonuses declared/paid during the last three years:

For the year ended	Final		*Interim	
	Cash	Bonus	Cash	Bonus
31 December 2012	–	15%	16%	–
31 December 2013	18%	–	20%	–
31 December 2014	–	25%	–	10%

* Declared with half yearly accounts

Required:

Prepare Statement of Changes in Equity for the year ended 31 December 2014 in accordance with the requirements of the Companies Ordinance, 1984 and International Financial Reporting Standards. (Ignore taxation)

(15)

{Spring 2015, Q.4}

Question-2

Chand Paints Limited (CPL) is engaged in the manufacturing of chemicals and paints. In April 2016 it was discovered that certain errors had been made in the financial statements for the year ended 30 June 2015. The errors were corrected in 2016. The details are as follows:

	2016 (Draft)	2015 After correction of errors	2015 Audited
	---------- Rs. in million ----------		
Statement of comprehensive income			
Sales tax, commission and discounts	(7,939)	(8,246)	(7,916)
Cost of sales	(45,508)	(44,606)	(44,633)
Selling and distribution expenses	(2,940)	(2,635)	(2,441)
Administration expenses	(2,356)	(2,254)	(2,149)
Other operating charges	(495)	(467)	(515)
Other operating income	920	427	509
Profit for the year	4,089	3,723	4,359
Statement of financial position			
Trade and other receivables	1,839	1,613	2,025
Trade and other payables	11,600	8,894	8,670

The share capital and un-appropriated profit of CPL as on 1 July 2014 was Rs. 10,400 million and Rs. 19,089 million respectively.

The details of dividend declared are as follows:

		2016	2015
Cash dividend	– Interim	10%	5%
	– Final	15%	10%

Required

(a) Prepare a correction of error note to be included in the financial statements for the year ended 30 June 2016. ***(Ignore earnings per share and taxation)*** **(10)**

b) Prepare the statement of changes in equity for the year ended 30 June 2016. **(08)**

{Autumn 2016, Q.4}

Question-3

For the purpose of preparation of statement of changes in equity for the year ended 31 December 2017, Daffodil Limited (DL) has extracted the following information:

	2017 Draft	2016 Audited	2015 Audited
	--------Rs. in million--------		
Net profit	650	318	214
Transfer to general reserves	112	-	141
Revaluation Surplus arose during the year	-	150	-
Transfer of incremental depreciation	-	49	55
Final cash dividend	-		7.5%

Additional information:

(i) Details of share issues:

- 25% right shares were issued on 1 May 2016 at Rs. 18 per share.
- A bonus issue of 10% was made on 1 April 2017 as final dividend for 2016.
- 50 million right shares were issued on 1 July 2017 at Rs. 15 per share.
- A bonus issue of 15% was made on 1 September 2017 as interim dividend.

(ii) After preparing draft financial statements, it was discovered that depreciation on a plant costing Rs. 700 million has been charged @ 25% under reducing balance method, from the date of commencement of manufacturing i.e. 1 July 2014. However, the plant was available for use on 1 February 2014.

(iii) Share capital and reserves as at 31 December:

	2015	2014
	-----Rs. in million-----	
Ordinary share capital (Rs. 10 each)	1,600	1,600
General reserves	1,850	1,709
Retained earnings	1,430	1,302
Revaluation surplus	-	-

Required:

Prepare DL's statement of changes in equity for the year ended 31 December 2017 along with comparative figures. *(Ignore taxation)* (14)

{Spring 2018, Q#1}

Question-4

Following information have been extracted from the financial statements of Fakhr Limited (FL) for th year ended 31 December 2019:

(i)

	2019 Draft	2018 Audited	2017 Audited
	---------	Rs. in million	---------
Net profit	84	98	72
Revaluation surplus arising during the year*	25	(14)	-

****Transfer to retained earnings is made upon de-recognition of related asset.***

(ii) Share capital and reserves as at 1 January:

	2018	2017
	----- Rs. in million	-----
Share capital (Rs. 10 each)	300	300
Revaluation surplus	102	102
Retained earnings	348	276

(iii) On 1 March 2018, FL declared a final cash dividend of 10% for the year ended 31 Decemb 2017. On 1 November 2018, FL issued 40% right shares to its ordinary shareholders at Rs. 24 p share. On 1 August 2019, an interim bonus of 15% was declared.

Following matters need to be incorporated in the draft financial statements of FL:

(i) To provide more relevant and reliable information about investment property, it has been decided to change the measurement basis for investment property from cost model to fair value model.

The only investment property of FL is a building purchased on 1 January 2016 at a cost of Rs. 150 million. 60% of the cost represents building component having estimated useful life of 20 years and residual value of Rs. 10 million. The depreciation is included in the above draft financial statements. The fair value of the investment property has increased by 6% in each year since acquisition.

Required:

Prepare FL's statement of changes in equity (including comparative figures) for the year ended 31 December 2019. ('Total' column is not required) {September 2020 Q.7}

Question-5

Chand Limited (CL) was incorporated on 1 January 2020 with an authorized share capital of Rs. 500 million comprising of 50 million shares.

(i) Details of shares issued are as follows:

- On 1 March 2020, CL issued 20 million shares at Rs. 18 each.
- On 1 October 2020, CL issued 15% bonus shares. The market price per share immediately before the announcement of bonus was Rs. 24 per share.
- On 1 September 2021, CL issued 40% right shares at a premium of Rs. 12.5 per share. The market price per share immediately before the entitlement date was Rs. 33 per share.

(ii) Following information has been extracted from CL's draft financial statements:

	2021	2020
	Draft	Audited
	--------- Rs. in million	---------
Net profit	66	48
Revaluation surplus arising during the year	-	20
Transfer of incremental depreciation	4	-
Final cash dividend	-	10%

(iii) After the preparation of draft financial statements for the year ended 31 December 2021, it was discovered that installation cost of Rs. 12 million relating to a plant capitalized on 1 August 2020 was wrongly expensed out. The plant is subsequently measured using cost model and is being depreciated @ 20% per annum on reducing balance method.

Required:

(a) Prepare CL's statement of changes in equity for the year ended 31 December 2021 along with comparative figures. *(Column for total is not required)* **(09)**

(b) Compute CL's basic and diluted earnings per share to be disclosed in the statement of profit or loss for the years ended 31 December 2021 and 2020. **(08)**

{Spring 2022 Q.8}

PAST PAPER SOLUTIONS

Answer- 1

Pak Ocean Limited
Statement of Changes in Equity
For the year ended December 31, 2014

Rs. in 'million'

	Share Capital	Share premium	Revaluation surplus	Retained earnings	Total
Opening 1.1.13	200			45	245
Final Bonus dividend-12 (200 x 15%)	30			(30)	-
Interim Dividend-13 (200 + 30) x 20%				(46)	(46)
Total comprehensive income - Restated (52 - (W-1) 1)			12	51	63
Transfer to retained earning			(2.30)	2.30	-
Closing 31.12.13 – Restated	230		9.7	22.3	262
Final dividend-13 (230 x 18%)				(41.40)	(41.40)
Interim Bonus dividend-14 (230 x 10%)	23			(23)	-
Right issue (W-3)	63.25	12.65			75.90
Total comprehensive income (78 + (W-1) 1)			10	79	89
Transfer to retained earning			(1.50)	1.50	-
Closing 31.12.14	316.25	12.65	18.2	38.40	385.5

(W-1) Journal entries

Rectifying entry

2013			2014		
Particulars	**Dr.**	**Cr.**	**Particulars**	**Dr.**	**Cr.**
Depreciation	1		P.P.E	1	
P.P.E		1	Depreciation		1

(W-2)
The depreciation of Rs 4.5 million represents only 9 months depreciation. However the asset was ready for use on 1-Feb-2013. Therefore 2 months depreciation which is not recorded by accountant is calculated as below:

Depreciation for 2 months (Feb and March)	(4.5/9months) x 2 months	Rs. 1 million

(W-3) Entry for right issue

Particulars	Dr.	Cr.
Cash	75.9	
Share capital ((W-4) 0.6325 x 100)		63.25
Share premium ((W-4) 0.6325 x 20)		12.65

Right issue is made at Rs 120. Normal share price is Rs 100; therefore Rs 20 is share premium.

(W-4) No. of Right shares issued = [(230+23)/100] x 25% = 0.6325 million shares.

Answer-2

(a)

Chand Paints Limited

Notes to the financial statements (Extracts)

For the year ended June 30, 2016

Correction of error note

During the year 2016, it was discovered that certain errors had been made in the financial statements for the year ended 30 June 2015. The errors were corrected in 2016.

The effect of retrospective restatement on statement of comprehensive income is tabulated below:

Effect on line items of statement of comprehensive income

		Rs.(m) 2015
Increase in sales tax, commission and discounts	(8,246 – 7,916)	330
Decrease in cost of sales	(44,606 – 44,633)	27
Increase in selling and distribution expenses	(2,635 – 2,441)	194
Increase in admin. expenses	(2,254 – 2,149)	105
Decrease in other operating charges	(467 – 515)	48
Decrease in other operating income	(427 – 509)	82
Decrease in profit	(-330 + 27 – 194 – 105 + 48 -82)	636

The effect of retrospective restatement on statement of financial position for 2015 is tabulated below:

Effect on line items of statement of financial position

		Rs.(m) 2015
Decrease in trade and other receivables	(1,613 – 2,025)	412
Increase in trade and other payables	(8,894 – 8,670)	224
Decrease in retained earnings	(- 412 - 224)	636

(b)

Chand Paints Limited

Statement of Changes in Equity (Extracts)

for the year ended June 30, 2016

Date		Share Capital	Retained Earnings	Rs.(m) Total
Balance as on 1-7-14		10,400	19,089	29,489
Interim dividend – 15 @ 5%	(10,400 x 5%)	-	(520)	(520)
Profit – 15 - **Re-stated**		-	3,723	3,723
Balance as on 30-6-15 - **Re-stated**		10,400	22,292	32,692
Final dividend – 15 @ 10%	(10,400 x 10%)	-	(1,040)	(1,040)
Interim dividend – 16 @ 10%	(10,400 x 10%)	-	(1,040)	(1,040)
Profit – 16		-	4,089	4,089
Balance as on 30-6-16		**10,400**	**24,301**	**34,701**

Answer-3

Daffodil Limited (DL)
Statement of Changes in Equity
For the year ended December 31st, 2017

Rs. in 'million'

		Share capital	Share premium	General Reserve	Rev. Sur.	Retained earnings	Total
Opening (01.01.16)		1,600	-	1,850	-	1,430	4,880
Effect of correction of error	(-72+18)	-	-	-	-	(54)	(54)
Opening (01.01.16)- Restated		1,600	-	1,850	-	1,376	4,826
Final dividend -2015	(1,600 x 7.5%)					(120)	(120)
Right issue	(W-2)	400	320				720
Total comp. income –Rest	(318+14(W-1))				150	332	482
Transfer to retained earnings					(49)	49	0
Closing balance- (31.12.16) – Restated		2,000	320	1,850	101	1,637	5,908
Final Dividend -2016	(2,000 x 10%)	200				(200)	-
Right issue	(W-3)	500	250				750
Bonus issue 2017 (2,000+200+500) = 2,700 x15%		405				(405)	-
Total comprehensive income	(650+10)(W-1)					660	660
Transfer to general reserve				112		(112)	-
Closing balance -31.12.17		3,105	570	1,962	101	1,580	7,318

(W-1)

Date	**Description**	**Wrong**	**Original**	**Effect on financial statement**
01.02.14	Cost	700	700	
31.12.14	Depreciation (700 x 25% x6/12): (700 x 25%x11/12)	(88)	(160)	Inc. Dep by 72
31.12.14	WDV	612	540	
31.12.15	Depreciation (612 x 25%): (540 x 25%)	(153)	(135)	Dec. Dep by 18
31.12.15	WDV	459	405	
31.12.16	Depreciation (459 x 25%): (405 x 25%)	(115)	(101)	Dec. Dep by 14
31.12.16	WDV	344	304	
31.12.17	Depreciation (344 x 25%): (304 x 25%)	(86)	(76)	Dec. Dep by 10
		258	228	

(W-2) Right Share

Share Capital in Rs. before right issue		Rs. 1,600 million
Number of Share	(1600/10)	160 million shares
Number of right shares	(160 x 25%)	40 million shares

Particulars	**Dr.**	**Cr.**
Cash (40 x 18)	720	
Share Capital (40 x 10)		400
Share Premium (40 x 8)		320

(W-3) Right issue Share

Particulars	**Dr.**	**Cr.**
Cash (50 x 15)	750	
Share Capital (50 x 10)		500
Share Premium (50 x 5)		250

Answer- 4

(a) **Fakhar Limited**

SOCIE (for the year ended 31-12-19)

	Share capital	Shares premium	Retained earnings	Revaluation surplus
Opening balance (1-1-18)	300	0	348	102
Parior year adjustment [+4 + 9 + 4 + 10]			27	
Opening balance (1-1-18) – R	300	0	375	102
Final dividend of 2017 cash (300 × 10)			(30)	
Right issue $\left[\frac{\text{Rs.300 million}}{\text{Rs.10}} \times 40\% = 12 \times \text{Rs. } 24\right]$	120	168	-	-
Total comprehensive income – 2018 [98 + 4 + 10] – R			112	(14)
Closing balance (31-12-18) – R	420	168	457	88
Interim dividend 2019 bonus (420 × 15%	63	(63)	-	-
Total comprehensive income – 2019 [84 + 4 + 11] – R			99	25
Closing balance (31-12-19)	483	105	556	113

Journal entries

Year	**Old policy (Cost model)**	**Dr.**	**Cr**	**New policy (fair value model)**	**Dr.**	**Cr.**
2016	Dep. expense (P/L)	4		Invt. Property	9	
	Invt. Property		4	Fair value gain P/L		9
	[150 x 60% = (90 – 10) x 5%]			[150 vs 159]		
2017	Dep. expenses (P/L)	4		Invt. Property	10	
	Invt. Property		4	Fair value gain P/L		10
				[159 vs 169]		
2018	Dep. expenses (P/L)	4		Invt. Property	10	
	Invt. Property		4	Fair value gain P/L		10
				[169 vs 179]		
2019	Dep. expenses (P/L)	4		Invt. Property	11	
	Invt. Property		4	Fair value gain P/L		11
				[179 vs 190]		

Answer- 5

(a) **Chand Limited**

SOCIE (for the year ended 31-12-21)

	Share capital	Shares premium	Retained earnings	Revaluation surplus
Opening balance (1-1-20)	0	0	0	0
New shares issued (20 million x Rs. 18)	200	160	-	-
Bonus issued (Rs. 200 million x 15%)	30	(30)	-	-
Total comprehensive income 2020 [48 + 12 – 1] – R	-	-	59	20
Closing balance (31-12-20) - R	230	130	59	20
Final cash dividend of 2020 (Rs. 230 x 10%)	-	-	(23)	-
Right issue $\left[\frac{\text{Rs.230}}{\text{Rs.10}} \times 40\% = 9.2 \times \text{Rs. } 22.5\right]$ x	92	115	-	-
Total comprehensive income – 2021 [66 – 2.2]	-	-	63.8	-
Transfers	-	-	4	(4)
Closing balance (31-12-21)	322	245	103.8	16

(b)

Basic diluted EPS (2020) = $\frac{40}{19.2\ (w-1)}$	Rs. 2.5
Basic diluted detailed EPS (2021) $\frac{63.8}{27.6\ (w-2)}$	Rs. 2.3
Basic and diluted EPS (2020) Restated $\frac{59}{19.2 \times \frac{33}{30}}$	Rs. 2.8

Analysis	Bonus	Right issue		
Before	100			
New	15	Before	100 x 33	3,300
After	115	New	40 x 22.5	900
		After	140 x 30	4,200

WORKINGS

(W-1) Weighted Average number of shares

Date	Description	No. of shares	Fraction	Wt. Avg no of shares
1-1-20	Opening	0	X 2/12 x 115/100	0
1-3-20	New shares issued	20		
		20	X 7/12 x 115/100	13.4
1-20-20	Bonus issued $\left[20x\frac{15}{100}\right]$	3		
		23	X 3/12	5.8
				19.2

(W-2) Weighted average of shares

Date	Description	No. of shares	Fraction	Wt. Avg no of shares
1-1-21	Opening	23	X 8/12 x 33/30	16.9
1-9-21	Right issue $\left[23x\frac{40}{100}\right]$	9.2		
		32.2	4/12	10.7
				27.6

CHAPTER-6
IAS-08
ICAP QUESTION BANK QUESTIONS

Question-1

Wonder Limited (WL) is engaged in the manufacturing and sale of textile machinery. Following are the draft extracts of the statement of financial position and the statement of comprehensive income for the year ended 30 June 2015:

Statement of Financial Position	2015	2014
	Rs. m	Rs. m
Property, plant and equipment	189	130
Retained earnings	198	108

Statement of comprehensive income

Statement of profit or loss	2015	2014
	Rs. m	Rs. m
Profit for the year	90	78

Following additional information has not been taken into account in the preparation of the above financial statements:

(i) Cost of repairs amounting to Rs. 20 million was erroneously debited to the machinery account on 1 October 2013. The estimated useful life of the machine is 10 years.

(ii) On 1 July 2014, WL reviewed the estimated useful life of its plant and revised it from 5 years to 8 years. The plant was purchased on 1 July 2013 at a cost of Rs. 70 million.

Depreciation is provided under the straight line method.

Required

Prepare relevant extracts (including comparative figures) for the year ended 30 June 2015 related to the following:

a) Statement of financial position

b) Statement of comprehensive income

c) Statement of changes in equity

d) Correction of error note

(ICAP Example-3)

Question-2

Mohani Manufacturing Limited is engaged in manufacturing of spare parts for motor car assemblers. The audited financial statements for the year ended December 31, 2014 disclosed that the profit and retained earnings were Rs. 21 million and Rs. 89 million respectively. The draft financial statements for the year show a profit of Rs. 15 million. However, following adjustments are required to be made:

(i) The management of the company has decided to change the method for valuation of raw materials from FIFO to weighted average. The value of inventory under each method is as follows:

	FIFO	Weighted Average
	Rs. m	Rs. M
December 31, 2013	37.0	35.5
December 31, 2014	42.3	44.5
December 31, 2015	58.4	54.4

(ii) In 2014, the company purchased a plant for Rs. 100 million. Depreciation on plant was recorded at Rs. 25 million instead of Rs. 10 million. This error was discovered after the publication of financial statements for the year ended December 31, 2014. The error is considered to be material.

Required

Produce an extract showing the movement in retained earnings, as would appear in the statement of changes in equity for the year ended December 31, 2015.

(ICAP Example-2)

Question-3

Continuing from Q.2 prepare note for change in policy for the year ended December 31, 2015?

Question-4

A non-current asset was purchased for Rs. 200,000 two years ago, when its expected economic life was ten years and its expected residual value was nil. The asset is being depreciated by the straight-line method.

A review of the non-current assets at the end of year 2 revealed that due to technological change, the useful life of the asset is only six years in total, and the asset therefore has a remaining useful life of four years.

Required:

Calculate depreciation expense for year 1 & year 2.

Question-5

A generator was purchased in Year 2018 at the cost of Rs. 50 million. It was estimated in Year 2018 that it will run for 80,000 hours. Company estimates that each year, it will run 8,000 hours i.e. 10% of estimated generation. The Company intends to use Straight line method for depreciation.

In year 2018, Generator ran for 8,000 hours, however, in year 2019, it ran for 7,200 hours, decline of 10%. On re assessment, the management concluded that their initial assessment of running of 8,000 hour per year for generator needs revision, and each year, the generator will run for 90% of the hours it ran in last year, i.e. the benefit will get reduced by 10% each year. Therefore, now Company intends to apply reducing balance / diminishing balance method of the remaining carrying amount of this asset.

Required:

Calculate depreciation expense for year 2018, year 2019 & year 2020.

Question-6

The following information has been taken from the financial statements of Asif Engineering Limited (AEL) for the year ended 31 December 2015:

	2015 (draft)	2014	2013
	---------- Rs. in million ----------		
Property, plant equipment	2,430	2,402	2,105
Stores and spares	73	80	70
Retained earnings as at 31 December	353	224	101
Net profit	129	123	112

In the above financial statements, AEL has recognised consumption of spare parts as expense. AEL has now decided to change its above policy and classify consumption of spares having useful life of more than one year as capital spares under property, plant and equipment.

Following information pertains to capital spares consumed during the past three years:

Year ended	Parts issued during the year Rs. in million	Useful life of the issued parts
31 December 2013	55	5 years
31 December 2014	39	3 years
31 December 2015	44	4 years

Depreciation on these parts is to be charged using straight line method over its useful life.

Required:

In accordance with the requirements of International Financial Reporting Standards, prepare the revised extracts (including comparative figures) of the following:

(a) statement of financial position as at 31 December 2015

(b) statement of comprehensive income for the year ended 31 December 2015

(c) statement of changes in equity for the year ended 31 December 2015 **(ignore taxation)**

(ICAP Example-1)

Question-7

Following information has been extracted from the draft financial statements of Marvellous Limited (ML) for the year ended 30 June 2017:

Statement of financial position

	2017	2016
	Rs. in million	
Property, plant and equipment	700	612
Retained earnings	330	265
Statement of profit or loss		
Profit for the year	65	85

The following matters are under consideration of the management:

- It was identified that ML's had incorrectly charged Rs. 36.75 million as maintenance expense, incurred on installation of the plant. The plant was available for use on 1 July 2014 and had been depreciated on straight line basis over a useful life of four years.

- In view of significant change in the expected pattern of economic benefits from an item of the equipment, it has been decided to change the depreciation method from reducing balance to straight line. The equipment was purchased on 1 July 2015 at a cost of Rs. 80 million having estimated useful life of 5 years and residual value of Rs. 16 million. The depreciation at the rate of 27.5% on reducing balance method is included in the above draft financial statements.

The following balances pertain to ML's statement of financial position as on 30 June 2015:

	Rs. in million
Property, plant and equipment	650
Retained earnings	180

Ignore tax.

Required:

Prepare extracts from the statement of financial position, statement of profit or loss and correction of error note (including comparative figures) for the year ended 30 June 2017. *(ICAP Example-4)*

Question-8

During the year, it was discovered that due to some calculation error in excel sheet, fair value of Coal Limited's (CL's) office building was taken incorrectly as Rs. 460 million instead of Rs. 360 million. Resultantly, the building was recorded based on incorrect revaluation amount in CL's financial statements for the year ended 30 June 2017.

This building was acquired on 1 July 2015 for Rs. 500 million and then revalued for the first time on 30 June 2017. CL follows revaluation model for subsequent measurement of its building classified as property, plant and equipment and charges depreciation over its useful life of 10 years using straight line method. CL accounts for revaluation on net replacement value method and transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.

As on 30 June 2019, the revalued amount of building has been determined at Rs. 320 million.

Required:

Prepare extracts from CL's statement of financial position and related notes to the financial statements for the year ended 30 June 2019 alongwith comparative figures for the above. (Note on Property, plant and equipment is not required) *(ICAP Example-7)*

ICAP QUESTION BANK SOLUTIONS

Answer-1

a)

Wonder Limited
Statement of Financial Position (Extracts)
as on June 30, 2015

		2015	Rs. in 'm' Restated 2014
Property, plant and equipment	W1	178.5	111.5
Retained Earnings		187.5	89.5

b)

Wonder Limited
Statement of Comprehensive income (Extracts)
for the year ended June 30, 2015

		2015	Rs. in 'm' Restated 2014
Profit for the year	W2	98.0	59.5

c)

Wonder Limited
Statement of Changes in Equity (Extracts)
for the year ended June 30, 2015

		2015	2014 (Restated)
		Rs. m	Rs. m
Balance as at 1 January	[108 – 78 Profit]	89.5	30
Total Comprehensive Income		98	59.5
Balance as at 31 December		187.5	89.5

d)

Wonder Limited
Notes to the financial statements (Extracts)
For the year ended June 30, 2015

Change in estimate (Note)

The remaining useful life estimate of a plant was revised from 4 to 7 years resulting in reduction of Depreciation Rs. 6 million in current period and for remaining life of the plant.

Correction of error

During the year ended June 30, 2014, the repair work was erroneously included in machine account. The effect of correction of this error is as follows:

		2014
		Rs. m
Effect on statement of financial position		
Decrease in Property, plant & equipment	W1	(18.5)
Decrease in Retained earnings		(18.5)
Effect on statement of profit or loss		
Increase in repair expense	W2	(20)
Decrease in depreciation expense		1.5
Decrease in profit		(18.5)

W1: Property, Plant & Equipment		2015	2014
		Rs. m	Rs. m
As given		189	130
Correction of error			
Less: Repair & Maintenance		(20)	(20)
Add: Depreciation 2014	[20 x 10% x 9/12]	1.5	1.5
Add: Depreciation 2015	[20 x 10%]	2	-
		(16.5)	(18.5)
Change in estimate			
Add: Lower Depreciation		6	-
		178.5	**111.5**

Change in estimate effect		Rs. m
Cost		70
Less: Depreciation	[70 / 5 years]	(14)
Net Carrying amount		**56**

Depreciation (Previous estimate)	[56 / 4 years]	14
Depreciation (New estimate)	[56 / 7 years]	8
Decrease		6

W2: Profit for the year		**2015**	**2014**
		Rs. m	**Rs. m**
As given		90	78
Correction of error			
Less: Repair & Maintenance		-	(20)
Add: Depreciation 2014	[20 x 10% x 9/12]	-	1.5
Add: Depreciation 2015	[20 x 10%]	2	-
		2	(18.5)
Change in estimate			
Add: Lower Depreciation		6	-
		98	**59.5**

Answer-2

Mohani Manufacturing Limited
Statement of Changes in Equity (Extracts)
For the year ended December 31, 2015

		Rs. in 'm'
Opening retained earnings 1.1.14	(W-2)	68.0
Effect of change in Accounting policy	(W-1)	(1.5)
Opening retained earnings 1.1.14 – restated		66.5
Profit for 2014 - restated	(21 + (W-1) 18.70)	39.7
Closing retained earnings 31.12.14 – restated		106.2
Profit for 2015	(15 - (W-1) 6.2)	8.8
Closing retained earnings 31.12.15		115.0

(W-1) Impact of adjustments on profit

	2015	2014	2013
Effect of change in policy			
Closing stock of 2013		1.5	(1.5)
Closing stock of 2014	(2.2)	2.2	
Closing stock of 2015	(4.0)		
	(6.2)	3.7	(1.5)
Effect of prior year error correction			
Depreciation over recorded now reversed		15.0	
Adjustment required in profit	(6.2)	18.7	(1.5)

(W-2) Calculation of opening unadjusted retained earnings on 1.1.14

Retained Earnings - 2014

c/d (31.12.14)	89.0	b/d 1.1.14 (bal.)	68.0
		Profit - 2014 (Given)	21.0

Answer-3

Mohani manufacturing Limited
Notes to the financial statements (Extracts)
For the year ended December 31, 2015

N-7 Change in policy

During the year ended 31 December 2015, the management of company has decided to change the method of valuation of raw material from FIFO to weighted average.

Effect on line items of statement of comprehensive income

	2015	2014
Decrease in cost of sales (W)		3.7
Increase in cost of sales (W)	6.2	
Increase in profit		3.7
Decrease in profit	6.2	

Effect on line items of statement of financial position

		2015	2014	2013
Decrease in stock	(From Q.)	4		1.5
Increase in stock	(From Q.)		2.2	
Decrease in Retained earnings		4		1.5
Increase in retained earnings			2.2	

(W-1) Impact of adjustments on profit

	2015	2014	2013
Closing stock of 2013		1.5	(1.5)
Closing stock of 2014	(2.2)	2.2	
Closing stock of 2015	(4.0)		
Adjustment required in profit	(6.2)	3.7	(1.5)

Answer-4

Depreciation -Year 1 $= \frac{\text{Cost} - \text{RV}}{\text{Life}}$ $= \frac{200,000 - 0}{10}$ $= 20,000$

The remaining life at the end of year 2 is 4 years, so remaining life at start of year 2 is 5 years. So we will calculate depreciation on the basis of 5 years.

Depreciation -Year 2 $= \frac{\text{Book value} - \text{new residual value}}{\text{Remaining life}}$ $= \frac{180,000\ (\text{W-1}) - 0}{5}$ $= 36,000$

(W-1) Book value at the time estimate is changed

$= 200,000 - 20,000$
$= 180,000$

Answer-5

Life = 10% = 10 Years

Depreciation -Year 2018 $= \frac{\text{Cost} - \text{RV}}{\text{Life}}$ $= \frac{50{,}000 - 0}{10}$ = 5,000

Date	**Description**		**Rs. In"000"**
01.01.19	Book value	(50,000 – 5,000)	45,000
31.12.19	Depreciation	(45,000 x 10%)	(4,500)
31.12.19	W.D.V		40,500
31.12.20	Depreciation	(40,500 x 10%)	(4,050)
31.12.20	W.D.V		36,450

Answer-6

(a) Statement of financial position as at 31 December 2015

Extracts from statement of financial position	**2015**	**2014 (Restated)**	**2013 (Restated)**
		--------- Rs. in million ---------	
Property, plant & equipment **(W-2)**	2,498	2,461	2,149
Stores and spares	73	80	70
Retained earnings	421	283	145

(b) Statement of comprehensive income for the year ended 31 December 2015

Extracts from statement of comprehensive income	**2015**	**2014 (Restated)**
	--------- Rs. in million ---------	
Net profit **(W-1)**	138	138

(c) Statement of changes in equity for the year ended 31 December 2015 (ignore taxation)

Extracts from statement of changes in equity	**Retained earnings Rs. in million**
Balance as at 1 January 2014	101
Effect of retrospective change in accounting policy **(W-1)**	44
Balance at 1 January 2014 – restated	145
Total comprehensive income – 2014 **(W-1)**	138
Balance as at 1 January 2015 – (restated)	283
Total comprehensive income – 2015	138
Balance as at 31 December 2015	421

W-1: Computation of net profit	**Depreciation expense for the year**		
	2013	**2014**	**2015**
	---------- Rs. in million ----------		
Depreciation for 2013 (55+5)	1	1	11
Depreciation for 2014 (39+3)	-	13	13
Depreciation for 2015 (44+4)	-	-	11
	11	24	35
Less: Amount already charged	55	39	44
Adjustment to be made in net profit	44	15	9
Profit for the year		123	129
Adjusted profit for the year		138	138

W-2: Property, plant and equipment			
As given	2,105	2,402	2,430
Add: Stores issued 2013	55	55	55
Add: Stores issued 2014	0	39	39
Add: Stores issued 2015	0	0	44
Less: Accumulated depreciation as calculated above **2014:** 11 + 24; **2015:** 11 + 24 + 35	(11)	(35)	(70)
Revised carrying value	**2,149**	**2,461**	**2,498**

Answer-7

Marvellous Limited			
Sstatement of Profit & Loss (Extracts)			Restated
For the year ended 30.6.17		**30.6.17**	**30.6.16**
Profit for the year		61.26	75.81
2016: (85 - 9.19)			
2017: (65 - 9.19 + 5.45)			
Marvellous Limited			
Statement of Financial Position		Restated	Restated
As on 30.6.17	**30.6.17**	**30.6.16**	**30.6.15**
Non-current assets			
Property, Plant and Equipment	714.68	630.4	677.61
2015: (650 + 36.8 - 9.19)			
2016: (612 + 36.8 - 9.19 - 9.19)			
2017: (700 + 36.8 - 9.19 - 9.19 - 9.19 + 5.45)			
Equity			
Retained earnings	344.68	283.4	207.61

2015: (180 + 36.8 - 9.19)			
2016: (265 + 36.8 - 9.19 - 9.19)			
2017: (330 + 36.8 - 9.19 - 9.19 - 9.19 + 5.45)			

Marvellous Limited

Notes to the Financial Statements

For the year ended 30.6.17

1. **Error correction**

It was identified in current year that installation costs of Rs. 36.75 million to be capitalised was incorrectly charged as maintenance expense on 1 July 2014. The effect of correction on relevant items of financial statements is as follows:

Items affecting statement of comprehensive income	**30.6.16**
Increase in depreciation	9.19
Decrease in profits	9.19

Items affecting statement of financial position	**30.6.16**	**30.6.15**
Increase in Property Plant & Equipment	18.42 (+36.8-9.19-9.19)	27.61 (+36.8-9.19)
Increase in Retained Earning	18.42 (+18.42 - 0)	27.61 (+27.61 - 0)

2. **Change in estimate**

The depreciation method for equipment was revised from reducing balance method to straight line method. Effect of this change is as follows:

Increase in profit of current year (W-3)	5.45
Decrease in profits of future years (W-3)	5.45

W-1

30.6.15			**30.6.16**			**30.6.17**		
PPE	36.75							
Maintenance Exp.		36.75						
Depreciation	9.19		Depreciation	9.19		Depreciation	9.19	
PPE		9.19	PPE		9.19	PPE		9.19
(36.75 / 4 years)			(36.75 / 4 years)			(36.75 / 4 years)		
						PPE	5.45	
						Depreciation (W-2)		5.45

W-2

Depreciation of 2017 wrongly charged under Reducing Balance Method

1.7.15	Cost	80
30.6.16	Dep. (80 x 27.5%)	-22
30.6.16	BV	58
30.6.17	Dep. (58 x 27.5%)	-15.95
30.6.17	BV	42.05

Depreciation of 2017 to be charged under Straight Line Method	
Dep. [(58-16) / 4 years]	10.5
Excess dep. To be reversed (15.95 - 10.5)	5.45

W-3

Current year

Depreciation ↓ 5.45	Profit ↑ 5.45

Future years

Depreciation ↑ 5.45	Profit ↓ 5.45

Answer-8

Coal Limited Statement of Financial Position (Extracts)		2019	2018 (Restated)	2017 (Restated)
As at 30 June 2019		Rs. m	Rs. m	Rs. m
Non-current assets: Building	W1	320	315	360
Equity: Revaluation Surplus	W1	20	-	-

Coal Limited

Notes to the financial statements (Extracts) for the year ended 30 June 2019

Correction of error note

It was identified in current year that revalued amount of one of buildings was taken as Rs. 460 million instead of Rs. 360 million in 2017's financial statements.

		2018	2017
Effect on statement of financial position		Rs. m	Rs. m
Decrease in PPE	W1	(87.5)	(100)
Decrease in Revaluation Surplus	W2	(52.5)	(60)
Decrease in Retained Earnings	W3	(35)	(40)
Effect on statement of profit or loss			
Decrease in depreciation expense	W1	(12.5)	

WORKINGS

(W1) Building

		Error	Corrected
		Rs. m	Rs. m
Cost 1 July 2015		500	500
Depreciation 2016	[Over 10 years]	(50)	(50)
Depreciation 2017	[Same]	(50)	(50)
CA at 30 Jun 2017 (pre revaluation)		400	400
Revaluation gain (loss)	[Balancing]	60	(40)
CA at 30 Jun 2017 (Revalued)		460	360

Depreciation 2018	[Over 8 years]	(57.5)	(45)
CA at 30 June 2018		402.5	315
Depreciation 2019	Over 7 years]		(45)
CA at 30 June 2019 (pre revaluation)			270
Reversal of loss (net of depreciation)	[40 - 5 - 5]		30
Revaluation surplus (OCI)	[Balancing]		20
CA at 30 June 2019 (Revalued)			320

(W2) Revaluation surplus

		Error	**Corrected**
		Rs. m	**Rs. m**
At 30 June 2017		60	-
Transfer to RE	[60 / 8 years]	(7.5)	-
At 30 June 2018		52.5	-

(W3) Impact on Retained Earnings

	Error	**Corrected**
	Rs. m	**Rs. m**
At 30 June 2017	-	(40)
Transfer from RS	7.5	-
Depreciation Expense	(57.5)	(45)
At 30 June 2018	(50)	(85)

CHAPTER-6

IAS-08

MULTIPLE CHOICE QUESTIONS

01. Which TWO of the following situations would not require a prior year adjustment as per IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"?

(a) In last year's financial statements, inventories were understated by a material amount due to system error

(b) A company has changed its allowance for irrecoverable receivables from 10% of outstanding debt to everything over 120 days old

(c) A new accounting standard has been issued that requires a company to change its accounting policy but gives no guidance on the specific application of the change itself

(d) A company has decided to move from charging depreciation on the straight line basis to the reducing balance basis

02. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" how is a change in accounting estimate accounted for?

(a) By changing the current year figures but not the previous years' figures

(b) By changing the current year figures and the previous years' figures

(c) No alteration of any figures but disclosure in the notes

(d) Neither alteration of any figures nor disclosure in the notes

03. According to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", how should a material error in the previous financial reporting period be accounted for in the current period?

(a) By making an adjustment in the financial statements of the current period through the statement of profit or loss, and disclosing the nature of the error in a note.

(b) By making an adjustment in the financial statements of the current period as a movement on reserves, and disclosing the nature of the error in a note.

(c) By restating the comparative amounts for the previous period at their correct value, and disclosing the nature of the error in a note.

(d) By restating the comparative amounts for the previous period at their correct value, but without the requirement for a disclosure of the nature of the error in a note.

04. Which of these changes would be classified as 'a change in accounting policy' as determined by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'?

(a) Increased the allowance for irrecoverable receivables from 5% to 10% of outstanding debts

(b) Changed the method of valuing inventory from FIFO to average cost

(c) Changed the depreciation of plant and equipment from straight line depreciation to reducing balance depreciation

(d) Changed the useful life of motor vehicles from six years to four years

05. In which TWO of the following situations can a change in accounting policy be made by an entity?

(a) If the change is required by an IFRS

(b) If the entity thinks that a new accounting policy would be easier to report

(c) If a new accounting policy would show more favourable results

(d) If a new accounting policy results in more reliable and relevant presentation of events or transactions

6. Which one of the following would be treated under IAS 8 "Accounting policies, changes in accounting estimates and errors" as a change of accounting policy?

(a) A change in valuation of inventory from a weighted average to a FIFO basis

(b) A change of depreciation method from straight line to reducing balance

(c) Adoption of the revaluation model for non-current assets previously held at cost

(d) Capitalisation of borrowing costs which have arisen for the first time

7. Which of the following items is a change of accounting policy under IAS 8 "Accounting policies, changes in accounting estimates and errors"?

(a) Classifying commission earned as revenue in the statement of profit or loss, having previously classified it as other operating income

(b) Switching to purchasing plant using leases from a previous policy of purchasing plant for cash

(c) Changing the value of a subsidiary's inventory in line with the group policy for inventory valuation when preparing the consolidated financial statements

(d) Revising the remaining useful life of a depreciable asset

8. The directors of Tom Limited are disappointed by the draft profit for the year ended 30 September 2013. The company's assistant accountant, Jerry, has suggested following:

A major item of plant that costed Rs. 20 million to purchase and install on 1 October 2010 is being depreciated on a straight-line basis over a five-year period. On 1 October 2012, the production manager believed that the plant was likely to last eight years in total (i.e. from the date of its purchase).

Jerry believes that as the useful life estimate has increased, the previous years' depreciation was overstated and it depreciation expense should be reversed in current year leading to increased profit.

What is the nature of the change being proposed by Jerry and how should it be applied?

(a) Change of accounting policy : Retrospective application

(b) Change of accounting policy : Prospective application

(c) Change of accounting estimate : Retrospective application

(d) Change of accounting estimate : Prospective application

9. If it is impractical to make a retrospective application to a period:

(a) Make the change only to the current period

(b) Apply the change to the earliest period that is practical

(c) Do not make the change at all

(d) Make the change in next year

10. Which TWO of the following would be treated as a change of accounting policy?

(a) Entity has received its first government grant and is applying the deferred income method.

(b) Entity has revalued its properties. Up to now they had all been carried at historical cost.

(c) Entity has reclassified development costs from other operating expenses to cost of sales.

(d) Entity has increased its irrecoverable debt allowance from 10% to 12%.

11. Correcting the recognition, measurement and disclosure of amounts in financial statements as if a prior-period error had never occurred. This is:
    - (a) Retrospective restatement
    - (b) Retrospective application
    - (c) Change in accounting estimate
    - (d) Prospective restatement

12. Specific principles bases conventions rules and practices applied in presenting financial statements. This defines:
    - (a) Accounting estimates
    - (b) Accounting policies
    - (c) Prospective application
    - (d) Accounting method

13. Adjustment of the carrying amount of an asset or a liability or the consumption of an asset as a result of change in assessment. This defines:
    - (a) A change in accounting estimate
    - (b) Accounting policies
    - (c) Misstatements
    - (d) Correction of error

14. Applying a new policy to transactions as if that policy had always been applied. This is:
    - (a) Retrospective restatement
    - (b) Retrospective application
    - (c) Change in accounting estimate
    - (d) Prospective application

15. The directors of Tom Limited are disappointed by the draft profit for the year ended 30 September 2013. The company's assistant accountant, Jerry, has suggested following:

    A major item of plant that cost Rs. 20 million to purchase and install on 1 October 2010 is being depreciated on a straight-line basis over a five-year period. On 1 October 2012, the production manager believed that the plant was likely to last eight years in total (i.e. from the date of its purchase).

    Jerry believes that as the useful life estimate has increased, the previous years' depreciation was overstated and it depreciation expense should be reversed in current year leading to increased profit.

    Adjusting for the change of useful life correctly, what will be the carrying amount of the plant at 30 September 2013?

    Rs. ___________

16. Imad Textile Limited (ITL) purchased a plant on January 01, 2011 for Rs. 1,120,000. At this date the useful life of the asset was estimated at 10 years after which it can be sold for Rs. 120,000. However, during 2013 ITL estimates the remaining useful life of this plant as 6 years and expects to fetch residual value of Rs. 170,000. ITL uses straight line method for depreciating such plants.

    Calculate the amount of depreciation for the year ended on 31 December 2018.

    Rs. ___________

17. A company is preparing its financial statements for the year ended 31 December 2019 and discovered that in previous years following amounts were incorrectly capitalised in an intangible asset with indefinite useful life.

Year	Rs. M
2018	5
2017	4
2016	4
2015	3

What amount should be deducted from retained earnings in statement of changes in equity on 1 January 2018 for correction of above error?

Rs. ___________

18. A company is preparing its financial statements for the year ended 31 December 2019 and discovered that in previous years following amounts were incorrectly capitalised in an intangible asset with indefinite useful life.

Year	Rs. M
2018	5
2017	4
2016	4
2015	3

Calculate the effect on profit after tax for the year ended 31 December 2018 correction of above error.

Rs. ___________

19. Most of entity's competitors value their inventory using the average cost (AVCO) basis, whereas the entity uses the first in first out (FIFO) basis.

The value of inventory at 30 September 2013 (on the FIFO basis) is Rs. 20 million, however on the AVCO basis it would be valued at Rs. 18 million. By adopting the same method (AVCO) as its competitors. The inventory at 30 September 2012 was reported as Rs. 15 million, however on the AVCO basis it would have been reported as Rs. 13.4 million.

What will be the effect of the change on profits for the year ended 30 September 2013?

Rs. ___________

20. Disclosure requirements of IAS 8 in respect of change in accounting policy are NOT applicable in case of:

(a) change in method for inventory valuation from FIFO to weighted average
(b) initial adoption of revaluation model for property, plant and equipment
(c) change in revenue recognition policy
(d) none of the above

(Autumn 2019 Q 4)

21. Which of the following would be a change in accounting policy in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors"?
    - (a) Adjusting the residual value amount based on latest information received
    - (b) A change in reporting depreciation charges as cost of sales rather than as administrative expenses
    - (c) Depreciation charged on reducing balance method rather than straight line
    - (d) Reducing the value of inventory from cost to net realisable value

MCQS SOLUTIONS

01.	(b) and (d)	(a) (b) (c) (d)	It would require prior year adjustment It would not require prior year adjustment (It is only change in estimate) If no guidance in new standard we will require prior adjustment It would not require prior year adjustment because it is change in estimate
02.	(a)	(a) (b) (c) (d)	- We don't change previous year in estimate change Alteration is required Alteration is required
03.	(c)	(a) (b) (c) (d)	ye ghalt baat hay kion kay previous year ko change karna hoga. ye ghalt baat likhi hay hum pervious year ko change karain gay. - ya ghalt baat hay error rectification ka note banta hay
04.	(b)	(a) (b) (c) (d)	It is change in estimate it is policy change it is change in estimate it is change in estimate
05.	(a) &(d)	(a) (b) (c) (d)	- ye ghalt baat likhi hay (yani sirf easy kam karain) ye ghalt baat likhi hay (yani achy profit show karain sirf) -
06.	(a)	(a) (b) (c) (d)	- ye estimate change hay ye change in policy to hay lakin sawal main likha hay kay is ki treatment konsa standard karta. Is ki treatment to IAS-16 main hay na kay IAS-38 main. ye policy ki change nahi hay balkay first time application hay
07.	(a)	(a) (b) (c) (d)	- ye sirf management decision hay ye adjustment normal hay na kay change in policy. ye estimate change hay na kay change in policy.
08.	(d)	(a) (b) (c) (d)	ye policy change nahi hay ye policy change nahi hay estimate kabi be retrospective apply nahi hota han ye estimate change hay jo prospectively theek hoga.
09.	(b)		
10.	(b) & (c)	(a) (b) (c) (d)	ye policy change nahi hay. - - ye change in estimate hay.
11.	(a)		
12.	(b)		
13.	(a)		
14.	(b)		

<table>
<tr><td>15.</td><td>Rs. 10 million
(12 - 2)</td><td>
<table>
<tr><td><u>(W-1)</u></td><td></td><td>Rs. in million</td></tr>
<tr><td>Cost (1 Oct. 2010)</td><td></td><td>20</td></tr>
<tr><td>Depreciation (30-9-11)</td><td>(20/5)</td><td>(4)</td></tr>
<tr><td></td><td></td><td>16</td></tr>
<tr><td>Depreciation (30-9-12)</td><td>(20 /5)</td><td>(4)</td></tr>
<tr><td></td><td></td><td>12</td></tr>
</table>
<u>(W-2)</u>
Depreciation 2013 = $\frac{\text{WDV}-\text{new R.V}}{\text{Remainign life}} = \frac{12-0}{6} = 2$
Jerry ki soch ghalat hay. Asal main pichly salon main koi galti nahi hoi. Ye sirf change in estimate hay.
</td></tr>
<tr><td>16.</td><td>Rs. 125,000</td><td>
<table>
<tr><td><u>(W-1)</u></td><td></td><td>Rs. '000'</td></tr>
<tr><td>Cost</td><td></td><td>1,120</td></tr>
<tr><td>Depreciation (2011)</td><td>$\left(\frac{1,120-120}{10}\right)$</td><td>(100)</td></tr>
<tr><td></td><td></td><td>1,020</td></tr>
<tr><td>Depreciation (2012)</td><td>$\left(\frac{1,120-120}{10}\right)$</td><td>(100)</td></tr>
<tr><td></td><td></td><td>920</td></tr>
</table>
<u>(W-2)</u>
Depreciation 2013 = $\frac{\text{WDV}-\text{new R.V}}{\text{Remainign life}} = \frac{920-170}{6} = 125$
</td></tr>
<tr><td>17.</td><td>Rs. 7.7 million</td><td>
<table>
<tr><td><u>2015, 2016 and 2017</u></td><td></td><td>Dr.</td><td>Cr.</td></tr>
<tr><td>Retained earnings (Expense)</td><td></td><td>11</td><td></td></tr>
<tr><td>Intangible</td><td>(4 + 4 + 3)</td><td></td><td>11</td></tr>
</table>
Decrease in R.E = -11
2018 kay saal ko is liye ignore kia hay ke sawal 1.1.18 ki retained earnings mang raha hay.
</td></tr>
<tr><td>18.</td><td>Rs. 3.5 million</td><td>
<table>
<tr><td><u>2018</u></td><td>Dr.</td><td>Cr.</td></tr>
<tr><td>Expense</td><td>5</td><td></td></tr>
<tr><td>Intangible</td><td></td><td>5</td></tr>
</table>
Net Decrease in PAT = -5
</td></tr>
<tr><td>19.</td><td>Rs. 0.4 million
(Reduction)</td><td>
<table>
<tr><td></td><td colspan="2">--------------------Rs. in million--------------------</td></tr>
<tr><td>Effect on Profit</td><td>2013</td><td>2012</td></tr>
<tr><td>Closing stock 2012</td><td>1.6</td><td>(1.6)</td></tr>
<tr><td>Closing stock 2013</td><td>(2)</td><td></td></tr>
<tr><td></td><td>(0.4)</td><td>(1.6)</td></tr>
</table>
2013 (reduced inventory by Rs. 2)
2012 (reduced inventory by Rs. 1.6)
</td></tr>
<tr><td>20.</td><td>(b)</td><td></td></tr>
<tr><td>21.</td><td>(b)</td><td>This is a change in presentation which will affect calculation of gross profit and will be retrospectively adjusted when presenting comparatives. (a(and (d) are simply adjustments made during preparation of the financial statements, (c) is a change of accounting estimate.</td></tr>
</table>

CHAPTER # 07
LECTURES
NOTES

LECTURE NOTES (ONLY FOR STUDENTS ATTENDING MY CLASSES)

IAS-16

Question-1

Mr. Atif has purchased a vehicle. Its cost on January 1, 2008 was Rs. 50,000. Its life is 4 years. Calculate depreciation for 4 years using straight line method. Year end is December 31.

Question-2

Mr. Latif has purchased a plant. Its cost on 1.4.2008 was Rs. 50,000. Its life is 4 years. Calculate depreciation expense for year ended December 31, 2008, 2009 and 2010.

Question-3

Mr. Arif has purchased a vehicle. Its cost on 1.5.2008 was Rs. 70,000. Its life is 5 years. Calculate depreciation expense for 2008, 2009, 2010, 2011. Year end is December 31.

Question-4

Mr. Atif has purchased an asset on 1.4.2004 for Rs. 50,000. Its residual value is 10,000 and rate of depreciation is 25% straight line. Year end is 31 December.

Required:

Calculate depreciation from 2004-2007.

Question-5

Mr. Zeeshan has purchased an asset on 1.7.2004 for Rs. 70,000. Its residual value is Rs. 20,000 and useful life is 4 years. Method used is straight line.

Required:

Calculate depreciation from 2004-2006 assuming year end is December 31.

Question-6

Mr. Moin has purchased a machine costing Rs. 600,000 on 1.1.2008. Calculate depreciation for first 4 years using WDV method. Rate is 10%. The year end is December 31.

Question-7

Mr. Shaban has purchased a machine costing Rs. 60,000 on 1.4.2008. Calculate depreciation for first 3 years using WDV method. Rate is 10% and year end is 31 December.

Question-8

Mr. Umair purchased a computer on 1 March 2007.

Calculate depreciation for first 3 years on WDV method @ 15%. Cost is Rs. 200,000. Year end is December 31.

Question-9

Mr. Aamir has purchased building on 1.7.2008. Calculate depreciation on WDV method for first three years @ 20%. Cost is Rs. 300,000. Year end is September 30.

Question-10

A Gill, purchased a notebook PC on 1.1.2005 for Rs. 2,600. It has an estimated life of four years and a scrap value of Rs. 200.

She is not certain whether she should use the straight line or the reducing balance basis for the purpose of calculating depreciation on the computer.

Required:

You are required to calculate the depreciation (to the nearest Rs.) using both methods, showing clearly the balance remaining in the computer account at the end of each of the four years under each method. (Assume that 45 per cent per annum is to be used for the reducing balance method.

Question-11

A machine costs Rs. 8,000 on 1.1.2005. It will be kept for five years, and then sold for an estimated figure of Rs. 2,400. Show the calculations of the figures for depreciation (to nearest Rs.) for each of the five years using (a) the straight line method, (b) the reducing balance method, for this method using a depreciation rate of 20 per cent. Year end is December 31. Show clearly the WDV of the asset at the end of each of the year.

Question-12

A photocopier costs Rs. 23,000 on 1.1.2005. It will be kept for four years, and then traded-in for Rs.4,000. Show the calculations of the figures for depreciation for each year using (a) the straight line method, (b) the reducing balance method, for this method using a depreciation rate of 35 per cent. Year end is December 31. Show clearly the WDV of the asset at the end of each of the year.

Answer-1

Calculation of Depreciation

				Rs.
Depreciation for 2008	=	50,000/4	=	12,500
Depreciation for 2009	=	50,000/4	=	12,500
Depreciation for 2010	=	50,000/4	=	12,500
Depreciation for 2011	=	50,000/4	=	12,500

Answer-2

Calculation of Depreciation

Rs.

Depreciation for 2008 = (50,000/4) × 9/12 = 9,375

Depreciation for 2009 = 50,000/4 = 12,500

Depreciation for 2010 = 50,000/4 = 12,500

Answer-3

Calculation of Depreciation

Rs.

Depreciation for 2008 = (70,000/5) × 8/12 = 9,334

Depreciation for 2009 = 70,000/5 = 14,000

Depreciation for 2010 = 70,000/5 = 14,000

Depreciation for 2011 = 70,000/5 = 14,000

Answer-4

Calculation of Depreciation

Rs.

Depreciation = (Cost – residual value) × Rate per annum

Depreciation for 2004 = (50,000-10,000) ×25% × 9/12 = 7,500

Depreciation for 2005 = (50,000-10,000) × 25% = 10,000

Depreciation for 2006 = (50,000-10,000) × 25% = 10,000

Depreciation for 2007 = (50,000-10,000) × 25% = 10,000

Answer-5

Calculation of Depreciation

Rs.

Depreciation = $\frac{\text{(Cost – residual value)}}{\text{Useful life}}$

Depreciation for 2004 = $\frac{(70{,}000 - 20{,}000)}{4} \times 6/12$ = 6,250

Depreciation for 2005 = $\frac{(70{,}000 - 20{,}000)}{4}$ = 12,500

Depreciation for 2006 = $\frac{(70{,}000 - 20{,}000)}{4}$ = 12,500

Answer-6

Calculation of Depreciation

			Rs.
Cost			600,000
Depreciation	(31.12.2008)	(600,000 × 10%)	(60,000)
WDV	(31.12.2008)		540,000
Depreciation	(31.12.2009)	(540,000 × 10%)	(54,000)
WDV	(31.12.2009)		486,000
Depreciation	(31.12.2010)	(486,000 × 10%)	(48,600)
WDV	(31.12.2010)		437,400
Depreciation	(31.12.2011)	(437,400 × 10%)	(43,740)
WDV	(31.12.2011)		393,660

Answer-7

Calculation of Depreciation

			Rs.
Cost			60,000
Depreciation	(31.12.2008)	(60,000 × 10% × 9/12)	(4,500)
WDV	(31.12.2008)		55,500
Depreciation	(31.12.2009)	(55,500 × 10%)	(5,550)
WDV	(31.12.2009)		49,950
Depreciation	(31.12.2010)	(49,950 × 10%)	(4,995)
WDV	(31.12.2010)		44,955

Answer-8

Cost			200,000
Depreciation	(2007)	(200,000 × 15% × 10/12)	(25,000)
WDV			175,000
Depreciation	(2008)	(175,000 × 15%)	(26,250)
WDV			148,750
Depreciation	(2009)	(148,750 × 15%)	(22,313)
			126,437

Answer-9

Cost			300,000
Depreciation	(2008)	(300,000 × 20% × 3/12)	(15,000)
WDV			285,000
Depreciation	(2009)	(285,000 × 20%)	(57,000)
WDV			228,000
Depreciation	(2010)	(228,000 × 20%)	(45,600)
			182,400

Answer-10

Calculation of depreciation (Using straight line method)

Cost		2,600
Depreciation (2005)	(2,600 – 200) / 4	(600)
WDV		2,000
Depreciation (2006)	(2,600 – 200) / 4	(600)
WDV		1,400
Depreciation (2007)	(2,600 – 200) / 4	(600)
WDV		800
Depreciation (2008)	(2,600 – 200) / 4	(600)
WDV (31.12.2008)		**200**

Calculation of depreciation (Using write down value method)

Cost	2,600
Depreciation (2005)	(1,170)
WDV	1,430
Depreciation (2006)	(644)
WDV	786
Depreciation (2007)	(354)
WDV	432
Depreciation (2008)	(194)
WDV (31.12.2008)	**238**

Answer-11

Calculation of depreciation (Using straight line method)

Cost		8,000
Depreciation (2005)	(8,000 – 2,400) / 5	(1,120)
WDV		6,880
Depreciation (2006)	(8,000 – 2,400) / 5	(1,120)
WDV		5,760
Depreciation (2007)	(8,000 – 2,400) / 5	(1,120)
WDV		4,640
Depreciation (2008)	(8,000 – 2,400) / 5	(1,120)
WDV		3,520
Depreciation (2009)	(8,000 – 2,400) / 5	(1,120)
WDV (31.12.2009)		**2,400**

Calculation of depreciation (Using write down value method)

Cost		8,000
Depreciation (2005)	(8,000 × 20%)	(1,600)
WDV		6,400
Depreciation (2006)	(6,400 × 20%)	(1,280)
WDV		5,120
Depreciation (2007)	(5,120 × 20%)	(1,024)
WDV		4,096
Depreciation (2008)	(4,096 × 20%)	(819)
WDV		3,277
Depreciation (2009)	(3,277 × 20%)	(655)
WDV (31.12.2009)		**2,622**

Answer-12

Calculation of depreciation (Using straight line method)

Cost		23,000
Depreciation (2005)	(23,000 – 4,000) / 4	(4,750)
WDV		18,250
Depreciation (2006)	(23,000 – 4,000) / 4	(4,750)
WDV		13,500
Depreciation (2007)	(23,000 – 4,000) / 4	(4,750)
WDV		8,750
Depreciation (2008)	(23,000 – 4,000) / 4	(4,750)
WDV (31.12.2008)		**4,000**

Calculation of depreciation (Using write down value method)

Cost		23,000
Depreciation (2005)	(23,000 × 35%)	(8,050)
WDV		14,950
Depreciation (2006)	(14,950 × 35%)	(5,233)
WDV		9,717
Depreciation (2007)	(9,717 × 35%)	(3,401)
WDV		6,316
Depreciation (2008)	(6,316 × 35%)	(2,211)
WDV (31.12.2008)		**4,105**

Question-13

Mr. Babar purchased the following assets:

Date of purchase	Cost
1st April 2009	200,000
1st June 2009	300,000
1st September 2010	500,000

Depreciation rate is 10% under straight line method.

Requirement: Prepare asset a/c and Acc. Dep a/c as on 31st December 2009 and 2010.

Question-14

Mr. Anjum has started the business on January 1, 2009 of trading in shoes. He has disclosed the following data for first three years of his business operations which relates to additions in fixed assets:

	Date of Purchase	Cost (Rs.)
Year end December 31, 2009		
- Asset-1	1.1.2009	30,000
- Asset-2	1.7.2009	10,000
Year end December 31, 2010		
- Asset-3	1.4.2010	50,000
Year end December 31, 2011		
- Asset-4	1.7.2011	60,000

Useful life of all assets is 4 years.

Required:

Prepare an asset a/c, accumulated depreciation a/c and balance sheet extracts using above mentioned information for first three years of operations.

Question-15

Mr. Sultan has started the business on January 1, 2010 of trading in computers. He has disclosed the following data for first two years of his business operations which relates to additions in fixed assets:

	Date of Purchase	Cost
Year end December 31, 2010		
Asset – 1	1.1.2010	30,000
Asset – 2	1.4.2010	40,000
Asset – 3	1.6.2010	50,000
Year end December 31, 2011		
Asset – 4	1.3.2011	70,000

Rate of depreciation is 25% per annum using straight line method.

Required:

Prepare asset A/c, accumulated depreciation A/c for year ended December 31, 2010, 2011, 2012.

Question-16

Mr. Waqar has started the business on January 1, 2013 of trading in chairs. He has disclosed the following data for first two years of his business operations which relates to additions in fixed assets:

	Date of Purchase	Cost
Year end December 31, 2013		
Building – 1	1.1.2013	10,000
Building – 2	1.5.2013	15,000
Year end December 31, 2014		
Building – 3	1.8.2014	13,000
Building – 4	1.9.2014	12,000

Useful life of all assets is 6 years and method used for depreciation is straight line.

Required:

Prepare asset a/c and accumulated depreciation a/c for year ended December 31, 2013 and 2014.

Solutions

Answer-14

Dr. Asset A/c Cr.

1.1.09	b/d	-			
1.1.09	Cash	30,000			
1.7.09	Cash	10,000	31.12.09	c/d	40,000
1.1.10	b/d	40,000			
1.4.10	Cash	50,000	31.12.10	c/d	90,000
1.1.11	b/d	90,000			
1.7.11	Cash	60,000	31.12.11	c/d	150,000

Dr. Accumulated Depreciation a/c Cr.

			1.1.09	b/d	-
31.12.09	c/d	8,750		Depreciation expense	8,750
			1.1.10	b/d	8,750
31.12.10	c/d	28,125		Depreciation expense	19,375
			1.1.11	b/d	28,125
31.12.11	c/d	58,125		Depreciation expense	30,000

Mr. Anjum
Balance Sheet (extracts)
As on 31st December

	2009	2010	2011
Asset a/c	40,000	90,000	150,000
Less: Accumulated Depreciation	(8,750)	(28,125)	(58,125)
	31,250	61,875	91,875

VORKINGS

V-1) Calculation of depreciation

or 2009

additions	(30,000/4) + (10,000/4 × 6/12)	8,750

r 2010

opening assets	(40,000/4)	10,000
additions	(50,000/4 × 9/12)	9,375
		19,375

For 2011

On opening assets	(90,000/4)	22,500
On additions	(60,000/4 × 6/12)	7,500
		30,000

Answer-15

Asset A/c

Dr.					Cr.
1.1.10	b/d	-			
1.1.10	Cash	30,000			
1.4.10	Cash	40,000			
1.6.10	Cash	50,000	31.12.10	c/d	120,000
1.1.11	b/d	120,000			
1.3.11	Cash	70,000	31.12.11	c/d	190,000
1.1.12	b/d	190,000	31.12.12	c/d	190,000

Accumulated Depreciation a/c

Dr.					Cr.
			1.1.10	b/d	-
31.12.10	c/d	22,292		Depreciation expense	22,292
			1.1.11	b/d	22,292
31.12.11	c/d	66,876		Depreciation expense	44,584
			1.1.12	b/d	66,876
31.12.12	c/d	114,376		Depreciation expense	47,500

Calculation of Depreciation

Depreciation for 2010

On additions	(30,000 × 25%) + (40,000 × 25% × 9/12) + (50,000 × 25% × 7/12)	22,292

Depreciation for 2011

On opening assets	(120,000 × 25%)	30,000
On additions	(70,000 × 25% × 10/12)	14,584
		44,584

Depreciation for 2012

On opening assets	(190,000 × 25%)	47,500

Answer-16

Building a/c

Dr.					Cr.
1.1.13	b/d	-			-
1.1.13	Cash	10,000			
1.5.13	Cash	15,000	31.12.13	c/d	25,000
1.1.14	b/d	25,000			
1.8.14	Cash	13,000			
1.9.14	Cash	12,000	31.12.14	c/d	50,000

Accumulated Depreciation

Dr.					Cr.
			1.1.13	b/d	-
31.12.13	c/d	3,333		Depreciation expense	3,333
			1.1.14	b/d	3,333
31.02.14	c/d	9,068		Depreciation expense	5,735

Calculation of Depreciation

Depreciation for 2013

On additions during the year	(10,000/6) + (15,000/6 × 8/12)	3,333

Depreciation for 2014

On opening assets	(25,000/6)	4,166
On additions during the year	(13,000/6 × 5/12) + (12,000/6 × 4/12)	1,569
		5,735

Question-17

Mr. Qasim purchased an asset for Rs.90 on 1st January 2010. Life is 3 years and year end is 31st December.

Requirement: Prepare B/S extracts for 2010, 2011, 2012.

Question-18

Mr. Ehsan has provided the following information as on 1.1.2012 / Following balances are appearing in the books of Ehsan as on 1.1.2012.

Asset A/C	900,000
Acc. Dep. A/C	350,000

Following additions took place during the year ended 31.12.2012

Date of Purchase	Cost (Rs)
1st May 2012	180,000
1st August 2012	130,000

Rate of Dep is 20% on straight line.

Requirement: Prepare Asset and Acc. Dep. a/c as on 31st December 2012 and 2013.

Question-19

Mr. Asif has informed you that following balances are appearing on 1.1.2009 in his books of accounts:

	Cost	Accumulated Depreciation
Vehicles	300,000	113,000

Following is the detail of additions during the year ended December 31, 2009:

	Date of Purchase	Cost
Vehicle – ACT	1.3.2009	10,000
Vehicle – MGY	1.5.2009	15,000

Rate of depreciation is 20% per annum using straight line method.

Required:

Prepare relevant accounts for year ended December 31, 2009.

Answer-19

Vehicle a/c

Dr.					Cr.
1.1.09	b/d	300,000			
1.3.09	Cash	10,000			
1.5.09	Cash	15,000	31.12.09	c/d	325,000

Accumulated Depreciation a/c

Dr.	Cr.

			1.1.09	b/d	113,000
31.12.09	c/d	176,667		Depreciation expense	63,667

Calculation of Depreciation

Depreciation for 2009

On opening assets	(300,000 × 20%)	60,000
On additions	(10,000 × 20% × 10/12) + (15,000 × 20% × 8/12)	3,667
		63,667

Disposal of fixed assets under straight line method.

Question-20

Following Account Balances are appearing on 1.1.18:

Asset A/C	300,000
Acc. Dep	120,000

Details of additions:

Date of Purchase	Cost
1.March.2018	30,000
1.June.2018	50,000

Details of disposals:

Date of Purchase	Date of sale	Cost	Sale Proceeds
1.October.2015	30.June.2018	40,000	12,000

Requirement: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31st December 2018. Rate of depreciation is 10% S.L method

Question-21

Following Balances are appearing on 1.1.2017:

Asset A/C	50,000
Acc. Dep A/C	20,000

Additions of Rs. 30,000 took place on 1st September 2017. Further an asset costing Rs. 25,000 which was purchased on 1st July 2015 is disposed off on 30th September 2017 for Rs. 3,000 only. Rate of depreciation is 20% S.L method.

Requirement: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31st December, 2017.

Question-22

Mr. Black has provided you with following information:

	Cost as on	**Accumulated Depreciation**	**Rate**
	1.1.2001	as on 1.1.2001	S.L
Plant and Machinery	600,000	200,000	20%
Furniture	700,000	130,000	10%
Vehicle	800,000	170,000	25%

Following are the additions made in year ended December 31, 2001.

	Date	Cost
Plant and Machinery	1.1.2001	60,000
Furniture	1.6.2001	80,000
Vehicle	1.9.2001	70,000

Required:

Prepare Assets Accounts and Accumulated Depreciation account for year ended December 31, 2001 only.

Question-23

The following detail is provided by Mr. Aamir on 1.1.2007

	Cost as on 01.01.07	Accumulated Depreciation as on 01.01.07
Vehicle	1,400,000	650,000

Rate of depreciation is 15% on straight line basis

Following is the further detail for year ended December 31, 2007

Additions

Date of Purchase	Cost
1.Mar.07	200,000
1.May.07	250,000
1.June.07	23,000

Disposals

Description	Date of Purchase	Date of Disposal	Cost	Sale proceeds
Vehicle – 1	1.July.05	31.Mar.07	40,000	2,300
Vehicle – 2	1.March.04	30.June.07	70,000	4,700
Vehicle – 3	1.Aug.06	30.Nov.07	90,000	6,600

Required:

Prepare relevant accounts for year ended December 31, 2007.

Answer-22

Dr. Plant and Machinery - At Cost Cr.

1.1.01	b/d	600,000			
1.1.01	Cash	60,000			
			31.12.01	c/d	660,000

Dr. Accumulated Depreciation - Plant and Machinery Cr.

			.01	b/d	200,000
			31.12.01	Dep. Exp	132,000
31.12.01	c/d	332,000			

Depreciation:			
	On opening assets	(600,000 × 20%)	120,000
	On addition	(60,000 × 20%)	12,000
			132,000

Furniture – A/C

Dr.					Cr.
1.1.01	b/d	700,000			
1.6.01	Cash	80,000			
			31.12.01	c/d	780,000

Accumulated Depreciation – Furniture

Dr.					Cr.
			1.1.01	b/d	130,000
			31.12.01	Dep. Exp	74,667
31.12.01	c/d	204,667			

Depreciation:	On opening assets	(700,000 × 10%)	70,000
	On addition	(80,000 × 10% × 7/12)	4,667
			74,667

Vehicle a/c

Dr.					Cr.
1.1.01	b/d	800,000			
1.9.01	Cash	70,000			
			31.12.01	c/d	870,000

Accumulated Depreciation – Vehicle a/c

Dr.					Cr.
			1.1.01	b/d	170,000
			31.12.01	Dep. Exp	205,833
31.12.01	c/d	375,833			

Depreciation :	On opening	(800,000 × 25%)	200,000
	On addition	(70,000 × 25% × 4/12)	5,833
			205,833

Answer-23

Vehicle A/C

Dr.					Cr.
1.1.07	b/d	1,400,000			
1.3.07	Cash	200,000	31.3.07	Disposal	40,000
1.5.07	Cash	250,000	30.6.07	Disposal	70,000
1.6.07	Cash	23,000	30.11.07	Disposal	90,000
			31.12.07	c/d	1,673,000

Accumulated Dep. A/c

Dr.					Cr.
31.3.07	Disposal (W-2)	10,500	1.1.07	b/d	650,000
30.6.07	Disposal(W-2)	35,000		Depreciation Exp (W-1)	251,138
30.11.07	Disposal(W-2)	18,000			
31.12.07	c/d	837,638			

WORKINGS

(W-1) Depreciation Expense

On opening excluding disposals	(1,400,000 – 40,000 – 70,000 – 90,000) x 15%	180,000
On additions	(200,000 × 15% × 10/12)+ (250,000 × 15% × 8/12) + (23,000 × 15% × 7/12)	52,013
On disposals	(40,000 × 15% × 3/12) + (70,000 × 15% × 6/12) + (90,000 × 15% × 11/12)	19,125
		251,138

(W-2) Accumulated Dep. Of Disposals

Disposal on 31.3.07	(1 year and 9 months)	(40,000 × 15% × 1.75)	10,500
Disposal on 30.6.07	(3 year and 4 months)	(70,000 × 15 % × 3.3333)	35,000
Disposal on 30.11.07	(1 year and 4 months)	(90,000 × 15% × 1.3333)	18,000
			63,500

Disposal A/C

Dr.			Cr.
Vehicle	40,000	Accumulated Dep.	10,500
Vehicle	70,000	Accumulated Dep.	35,000
Vehicle	90,000	Accumulated Dep.	18,000
		Cash	2,300
		Cash	4,700
		Cash	6,600
		P/L (Bal.)	122,900

Question-24

Following balances are appearing on 1.1.13.

Asset A/C	70,000
Acc. Dep A/C	20,000

Additions:

Date	Cost
1.Mar.2013	10,000

Disposals:

D.O.P	D.O.S	Cost	Sale Proceeds
1.Apr.09	30.Jun.13	5,000	1,000
1.Jul.10	30.Sep.13	2,000	500

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31.12.13 and 14. Rate is 10% S.L.

Question-25

Mr. Saim purchased an asset costing Rs. 200,000 on 1^{st} Jan. 2019. The asset has a residual value of Rs. 19,850 at the end of its useful life. The asset is depreciated under Reducing Balance Method at 37%. Compute depreciation for the year ended 31^{st} December, 2019 to 31^{st} December, 2023.

Question-26

Assume the data is same as in question-vi above but the asset is purchased on 1^{st} April, 2019.

Question-27

Cost of asset	100,000
Residual value	10,000
Useful life	4 years
Date of purchase	1.1.2016

Required:

Calculate depreciation expense for the whole life of asset under both straight line and reducing balance methods.

Question-28

Following balances are appearing in the books of Raheel as on 1.1.2015.

Asset A/C	50,000
Acc. Dep. A/C	20,000

Additions of 15,000 took place on 1.3.2015. Rate is 20% on WDV method.

Requirement: Asset and Acc. Dep A/Cs as on 31^{st} December 2015.

Question-29

Mr. Taimoor has started the business on January 1, 2009 of manufacturing cars. He has disclosed the following data for first three years of his business operations which relates to additions in fixed assets:

	Date of Purchase	**Cost**
Year end December 31, 2009		
Asset-1	1.1.2009	30,000
Asset-2	1.7.2009	10,000
Year end December 31, 2010		
Asset-3	1.4.2010	50,000
Year end December 31, 2011		
Asset-4	1.7.2011	60,000

Method is WDV for depreciation and rate is 10%.

Required:

Prepare relevant accounts for years ended December 31, 2009, 2010 and 2011.

Question-30

Mr. Wasif has informed you that following balances are appearing on 1.1.2013 in his books of accounts:

	Cost	**Accumulated Depreciation**
Building	400,000	150,000

Following is the detail of additions during the year ended December 31, 2013:

	Date of Purchase	**Cost**
Building – Defence	1.3.2013	300,000
Building – Green Town	1.8.2013	100,000

Method for depreciation is WDV and rate is 20%.

Required:

Prepare relevant accounts for year ended December 31, 2013.

Question-31

Mr. Ali has informed you that following balances are appearing on 1.1.2013 in his books of accounts:

	Cost	**Accumulated Depreciation**
Machinery a/c	600,000	300,000

Following is the detail of additions during the year ended December 31, 2013:

	Date of Purchase	**Cost**
Cutter machine	1.3.2013	500,000
Molding machine	1.8.2013	250,000

Method for depreciation is WDV and rate is 20%.

Required:

Prepare relevant accounts for year ended December 31, 2013.

Question-32

Mr. Faiq has informed you that following balances are appearing on 1.1.2009 in his books of accounts:

	Cost	**Accumulated**

		Depreciation
Machinery a/c	600,000	200,000

Following is the detail of additions during the year ended December 31, 2009:

	Date of Purchase	Cost
Machinery B	1.3.2009	10,000
Machinery C	1.5.2009	70,000

Method for depreciation is WDV and rate is 30%.

Required:

Prepare relevant accounts for year ended December 31, 2009.

Answer-29

Dr. Asset A/c Cr.

1.1.09	b/d	-			
1.1.09	Cash	30,000			
1.7.09	Cash	10,000	31.12.09	c/d	40,000
1.1.10	b/d	40,000			
1.4.10	Cash	50,000	31.12.10	c/d	90,000
1.1.11	b/d	90,000			
1.7.11	Cash	60,000	31.12.11	c/d	150,000

Dr. Accumulated Depreciation Cr.

			1.1.09	b/d	-
31.12.09	c/d	3,500		Depreciation expense	3,500
			1.1.10	b/d	3,500
31.12.10	c/d	10,900		Depreciation expense	7,400
			1.1.11	b/d	10,900
31.12.12	c/d	21,810		Depreciation expense	10,910

Calculation for Depreciation

Depreciation for 2009

On additions	(30,000 × 10%) + (10,000 × 10% × 6/12)	3,500

Depreciation for 2010

On opening assets	(40,000 – 3,500) × 10%	3,650
On additions	(50,000 × 10% × 9/12)	3,750
		7,400

Depreciation for 2011

On opening assets	(90,000 – 10,900) × 10%	7,910
On additions	(60,000 × 10% × 6/12)	3,000
		10,910

Answer-30

Dr.		Building a/c			Cr.
1.1.13	b/d	400,000			
1.3.13	Cash	300,000			
1.8.13	Cash	100,000	31.12.13	c/d	800,000

Dr.		Accumulated Depreciation			Cr.
			1.1.13	b/d	150,000
31.12.13	c/d	258,333		Depreciation expense	108,333

Calculation for Depreciation

On opening assets	(400,000 – 150,000) x 20%	50,000
On additions during the year	(300,000 × 20% × 10/12) + (100,000 × 20% × 5/12)	58,333
		108,333

Answer-31

Dr.		Asset a/c			Cr.
1.1.13	b/d	600,000			
1.3.13	Cash	500,000			
1.8.13	Cash	250,000	31.12.13	c/d	1,350,000

Dr.		Accumulated Depreciation			Cr.
			1.1.13	b/d	300,000
31.12.13	c/d	464,167		Depreciation expense	164,167

Calculation for Depreciation

- On opening assets	(600,000 – 300,000) x 20%	60,000
- On additions	(500,000 × 20% × 10/12) + (250,000 × 20% × 5/1/2)	104,167
		164,167

Answer-32

Dr.		Machinery a/c			Cr.
1.1.09	b/d	600,000			
1.3.09	Cash	10,000			
1.5.09	Cash	70,000	31.12.09	c/d	680,000

Dr.		Accumulated Depreciation			Cr.
			1.1.09	b/d	200,000
31.12.09	c/d	336,500		Depreciation expense	136,500

Calculation for Depreciation expense

- On opening assets	(600,000 – 200,000) × 30%	120,000
- On additions	(10,000 × 30% × 10/12) + (70,000 × 30% × 8/12)	16,500
		136,500

Question-33

Mr. Moin has provided the following details of ledger balances appearing in his books as on 1.1.2016

Asset A/C	250,000
Acc. Dep. A/C	180,000

Following additions took place

Date	Cost
1st April 2016	40,000
1st June 2017	90,000

Rate of Depreciation is 20% on WDV method.

Requirement: Prepare Asset and Acc. Dep. a/c as on 31st December 2016 and 2017 along with income statement and balance sheet extracts.

Disposal of fixed assets under reducing balance method.

Question-34

Following balances are appearing in the books of Rehmat as on 1.1.12.

Asset	900,000
Acc. Dep.	200,000

Additions of Rs.90,000 is made on 1.8.12. Further an asset costing Rs.80,000 as on 1.4.09 is disposed of on 30.6.12 for Rs. 45,000 only. Rate is 10% WDV.

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31.12.12.

Question-35

Following balances are appearing on 1.7.13.

Asset	280,000
Acc. Dep.	100,000

Additions:

1.Apr.14	30,000

Disposal:

D.O.P	D.O.S	Cost	Sale Proceed
1.Apr.2008	31.Dec.13	50,000	12,000

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 30th June 14 and 15 along with journal entries of disposals. Rate is 10% S.L.

Question-36

Following balances are appearing on 1.1.2014.

Plant A/C	400,000
Acc. Dep. A/C	150,000

Addition of Rs.30,000 took place on 1st March 2014. An asset which was purchased on 1st May 2011 costing Rs.90,000 was disposed off on 30th September 2014 for Rs.12,000 only. Dep rate is 20% WDV.

Requirement: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31.12.14.

Question-37

Following balances are appearing on 1.Oct.13.

Cost	30,000
Acc. Dep.	12,000

Details of Disposal:

D.O.P	D.O.S	Cost	Sale Proceed
1.3.2011	31.12.13	10,000	2,000
1.2.2010	31.3.14	4,000	1,000

Requirement: Prepare Asset, Acc. Dep. & disposal A/Cs as on 30.Sep.14. Rate is 10% WDV.

Question-38

Following details are provided on 1.1.2010.

Asset A/C	90,000
Acc. Dep. A/C	50,000

An asset costing Rs. 10,000 is added on 1.mar.2010. Further an asset which was purchased on 1.4.2008 costing
Rs. 20,000 is disposed off on 30.6.2010 for Rs. 10,000 only. Dep rate is 10% S.L.

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31.12.10 along with journal entries of disposals.

Question-39

Following balances are appearing on 1.1.2014.

Plant A/C	400,000
Acc. Dep. A/C	150,000

Addition of Rs.30,000 took place on 1st March 2014. An asset which was purchased on 1st May 2011 costing Rs.90,000 was disposed off on 30th September 2014 for Rs.12,000 only. Dep rate is 20% WDV.

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31.12.14.

Question-40

Following balances are appearing on 1.Oct.13.

Cost	30,000
Acc. Dep.	12,000

Details of Disposal:

D.O.P	D.O.S	Cost	Sale Proceed
1.3.2011	31.12.13	10,000	2,000
1.2.2010	31.3.14	4,000	1,000

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 30.Sep.14. Rate is 10% WDV.

Exchange of Assets.

Question-41

Mr. Qasim owns a mobile nokia 3310 which he purchased on 1.4.2012 for Rs.3,000. On 1.1.14, He went to Hafeez Center where He saw a Samsung galaxy. He said, “Oh! What a beautiful mobile it is”. It bore a price label of Rs.50,000. He immediately decided to exchange the old sick mobile with the new one. The value assigned by the shopkeeper to old mobile was Rs.1200 only. Resultantly, he paid Rs.48,800 for new mobile. The rate of depreciation is 10%.

Required: Pass the journal entry for exchange on 1.1.2014.

Question-42

On 1.4.2012 we exchanged two old cars with a new car. The cost of one old car is Rs.400,000. These were purchased 4 years back (1.4.2008). The trade in allowance (exchange allowance) is Rs.180,000 per car. The cost of new car is 1,200,000. Rate is 10% S.L

Required: Pass the journal entry for exchange.

Question-43

Following ledger balances are appearing on 1.1.15.

Asset	200,000
Acc. Dep.	80,000

(i) Addition of 10,000 took place on 1.3.15

(ii) An old asset costing Rs.50,000 which was purchased on 1.7.2013 is exchanged with a new asset costing Rs.90,000. The transaction took place on 30th September, 2015 and T.I.A is Rs30,000. Rate is 10% S.L.

Required: Prepare Asset, Acc. Dep. & disposal A/Cs as on 31st December 2015 along with journal entry.

Determination of cost of new asset in an exchange transaction using class example (3 scenarios).

Example 1: (Fair values of both old and new assets are given)

Following data relates to an exchange transaction. You are **required to pass the journal entry** of exchange transaction.

	Rs.
Cost of old asset	100
Accumulated depreciation of old asset	60
Fair value of old asset	50
Fair value of new asset	80
Cash paid	60

Example 2: (Fair value of only new asset is given)

Following data relates to an exchange transaction. You are **required to pass the journal entry** of exchange transaction.

	Rs.
Cost of old asset	500
Accumulated depreciation of old asset	350
Fair value of old asset	X
Fair value of new asset	800
Cash paid	600

Example 3: (Fair values of both old and new assets are not given)

Following data relates to an exchange transaction. You are **required to pass the journal entry** of exchange transaction.

	Rs.
Cost of old asset	300
Accumulated depreciation of old asset	250
Fair value of old asset	X
Fair value of new asset	X
Cash paid	500

Change in estimate:

Question-44

Mr. Umar purchased an asset costing Rs.20,000 on 1.1.2012. Life of asset is 10 years and its R.V is Rs.2,000.

On 1.1.2014 it is estimated that its remaining life is only 6 years / its total life is 8 years.

Required: Calculate depreciation expense for the years ended December 31, 2012-13-14.

Question- 45

On 1.12015 an asset costing Rs.90,000 is purchased with an R.V of 10,000 and life of 16 years. On 1.1.2018 it is estimated that total life is 10 years and new R.V is 5,000 only.

Required: Calculate depreciation for the years ended December 31, 2015 to 2019.

Question-46

D.O.P	Cost	R.V	Rate
1.1.15	100,000	20,000	10% S.L

On 1.1.17 depreciation method is changed to WDV with a new rate of (?). There is no change in R.V.

Required: Calculate Depreciation for the years ended December 31, 2015 to 2018.

Question-47

D.O.P	Cost	R.V	Rate
1.7.16	200,000	20,000	20% WDV

On 1.7.18 the depreciation method is changed to S.L with total life of 10 years (30.6.2016-17-18-19)

Required: Calculate Depreciation for the years ended 30th June 2017 to 2019.

Question-48

D.O.P	Cost	R.V	Life
1.1.10	50,000	10,000	10 years

Method used is WDV. On 1.1.12 the total life is estimated at 5 years with no change in method and R.V.

Required: Calculate Depreciation for the years ended December 31, 2010 to 2013.

Preparation of asset account on book value

Question-49

Following ledger balance is appearing in the books on 1.1.12.

Asset-BV	200,000

i. Addition costing 90,000 took place on 1.3.12.

ii. An asset costing Rs. 50,000 which was purchased on 1.4.2010 is disposed of on 30.6.2012 for Rs. 20,000 only. Rate of depreciation is 20%WDV.

Requirement: Prepare Asset & disposal A/Cs as on 31.12.12.

Question-50

Following ledger balances is appearing on 1.1.13.

Asset-BV	80,000

i. Addition costing 5,000 took place on 1.7.13

ii. An asset having BV of Rs.12,000 on 1.1.2013 is disposed of on 30.9.2013 for Rs.1,000 only. Rate of Dep is 10%WDV.

Requirement: Prepare Asset & disposal A/Cs as on 31.12.13.

Question-51

Following balance is appearing on 1.7.14.

Asset-BV	70,000

Addition on 1.3.2015 is Rs.10,000.

An asset having BV of Rs.4,000 on 1.7.2014 is disposed of on 31.3.2015 for nil value.

An asset costing Rs. 25,000 which was purchased on 1.10.2012 is exchanged with a new asset costing Rs.40,000 on 31.5.2015. Net cash paid is Rs.12,000.

Requirement: Prepare Asset & disposal A/Cs as on 30.6.15. Rate is 10% on WDV.

Solution:50

Asset a/c – WDV

Dr.					Cr.
1.1.13	b/d	80,000	30.9.13	Disposals (W-1)	11,100
1.7.13	Additions	5,000		Depreciation expense (W-2)	7,950
			31.12.13	c/d (bal.)	65,050

(W-1) **WDV of disposals made on 30.Sep.2013**

			Rs.
1.1.13	WDV		12,000
30.9.13	Depreciation	(12,000 x 10% x 9/12)	(900)
30.9.13	WDV		11,100

(W-2) **Depreciation expense for year ended 31.12.2013**

Depreciation on opening assets excluding disposals (80,000 – 12,000) x 10%		6,800
Depreciation on additions	(5,000 x 10% x 6/12)	250
Depreciation on disposals	(W-1)	900
		7,950

Solution:51

Asset a/c – WDV

Dr.					Cr.
1.7.14	b/d	70,000	31.3.15	Disposals (W-1)	3,700
1.3.15	Additions	10,000	31.5.15	Disposals (W-2)	17,014
				Depreciation expense (W-3)	7,077
			31.12.13	c/d (bal.)	52,209

(W-1) **WDV of disposals made on 31.Mar.2015**

			Rs.
1.7.14	WDV		4,000
31.3.15	Depreciation	(4,000 x 10% x 9/12)	(300)
31.3.15	WDV		3,700

(W-2) **WDV of disposals made on 31.May.2015**

			Rs.
1.10.12	Cost		25,000
30.6.12	Depreciation	(25,000 x 10% x 9/12)	(1,875)
	WDV		23,125
30.6.13	Depreciation	(23,125 x 10%)	(2,313)
	WDV		20,812
30.6.14	Depreciation	(20,812 x 10%)	(2,081)
	WDV		18,731
31.5.15	Depreciation	(18,731 x 10% x 11/12)	(1,717)
31.15.15	WDV		17,014

(W-3) Depreciation expense for year ended 30.06.2015

Depreciation on opening assets excluding disposals (70,000 – 4,000 – 18,731) x 10%		4,727
Depreciation on additions	(10,000 x 10% x 4/12)	333
Depreciation on disposals	300 (W-1) + 1,717 (W-2)	2,017
		7,077

Revaluation of PPE

Question-52

Company X purchased a building costing Rs.100 million on 1.1.2015. Its useful life is 20 years. It is revalued on 1.1.2016 at Rs.120 million.

Required: Pass journal entries and prepare relevant ledgers for the years ended 31.12.15 & 31.12.16.

Question-53

An entity owns following asset:

Cost (1.1.2018)	Rs.500
Life	10 years

Asset was revalued on 1.1.19 at Rs.900.

Required: Pass journal entries and prepare relevant ledgers for the years ended 31.12.18 & 31.12.19.

Question-54

Details of an asset are:

Cost (1.1.2015)	Rs.800
Life	20 years

Revalued amount on 1.1.17 Rs.1,000.

Required: Pass journal entries and prepare relevant ledgers for the years ended 31.12.15 to 31.12.17.

Solution:53

Journal entries

Date	Particulars	Dr.	Cr.
1.1.18	Asset Cash	500	500
31.12.18	Depreciation Accumulated depreciation	50	50
1.1.19	Accumulated depreciation Asset	50	50
1.1.19	Asset Revaluation surplus	450	450
31.12.19	Depreciation Accumulated depreciation	100	100
31.12.19	Revaluation surplus Retained earnings	50	50

Ledgers

Asset a/c

1.1.18	Cash	500	31.12.18	c/d	500
1.1.19	b/d	500	1.1.19	Accumulated depreciation	50
1.1.19	Revaluation surplus	450	31.12.19	c/d	900

Accumulated depreciation a/c

31.12.18	c/d	50	31.12.18	Depreciation expense	50
1.1.19	Asset	50	1.1.19	b/d	50
31.12.19	c/d	100	31.12.19	Depreciation expense	100

Revaluation surplus a/c

31.12.19	Retained earnings	50	1.1.19	Asset	450
31.12.19	c/d	400			

Working

Date	Description	Asset	R/Surplus	P/L
1.1.18	Cost	500		
31.12.18	Dep. (500/10)	(50)		
31.12.18	WDV	450		
1.1.19	Revaluation surplus (Bal.)	450	450	
1.1.19	Revalued amount	900	450	
31.12.19	Dep. (900/9) ; (450/9)	(100)	(50)	
31.12.19	WDV	800	400	

Solution:54

Journal entries

Date	Particulars	Dr.	Cr.
1.1.15	Asset Cash	800	800
31.12.15	Depreciation Accumulated depreciation	40	40
31.12.16	Depreciation Accumulated depreciation	40	40
1.1.17	Accumulated depreciation Asset	80	80
1.1.17	Asset Revaluation surplus	280	280
31.12.17	Depreciation Accumulated depreciation	56	56
31.12.17	Revaluation surplus Retained earnings	16	16

Ledgers

Asset a/c

1.1.15	Cash	800	31.12.15	c/d	800
1.1.16	b/d	800	31.12.16	c/d	800
1.1.17	b/d	800	1.1.17	Accumulated depreciation	80
1.1.17	Revaluation surplus	280	31.12.17	c/d	1,000

Accumulated depreciation a/c

31.12.15	c/d	40	31.12.15	Depreciation expense	40
			1.1.16	b/d	40
31.12.16	c/d	80	31.12.16	Depreciation expense	40
1.1.17	Asset	80	1.1.17	b/d	80
31.12.17	c/d	56	31.12.17	Depreciation expense	56

Revaluation surplus a/c

31.12.17	Retained earnings	16	1.1.17	Asset	280
31.12.17	c/d	264			

Working

Date	Description	Asset	R/Surplus	P/L
1.1.15	Cost	800		
31.12.15	Dep. (800/20)	(40)		
31.12.15	WDV	760		
31.12.16	Dep. (800/20)	(40)		
31.12.16	WDV	720		
1.1.17	Revaluation surplus (Bal.)	280	280	
1.1.17	Revalued amount	1,000	280	
31.12.17	Dep. (1,000/18) ; (280/18)	(56)	(16)	
31.12.17	WDV	944	264	

Question-55

Mr. Umer purchased a building costing Rs.500 million on 1.1.15, having life of 10 years.
Revaluations details:

- 1.1.16 Rs.900M
- 1.1.17 Rs.360M

Required: Pass journal entries and prepare relevant ledgers.

Question-56

Details of an asset are:

D.O.P.	COST	LIFE
1.1.18	200	20years

Revaluations details:

- 1.1.19 Rs.900
- 1.1.20 Rs.120

Required: Pass necessary journal entries.

Question-57

An entity own following asset:

D.O.P.	COST	LIFE
1.1.10	100M	10 years

Revaluations details:

- 1.1.12 Rs.120M
- 1.1.14 Rs.40M

Required: Pass necessary journal entries.

Question-58

Cost of an asset on 1.1.15 is Rs.600. Life of the asset is 6 years. On 1.1.16 asset is revalued at Rs.400 with remaining life of 10 years.

Required: Pass necessary journal entries.

Question-59

Asset purchased on	01-01-12
Cost of Asset	500
Useful life	20 Years
Revaluation Details:	
01-01-14	800
01-01-16	250
01-01-18	600

Required: Prepare Journal entries from 2012 to 2018.

Question-60

Asset Purchased on	1-07-08
Cost	Rs.600
Useful Life	30 Years
It is revalued on 1.7.22 at	Rs.800

Required: Prepare journal entries of 2023 (i.e. for the year ended 30.06.23)

Fixed asset schedule / Note of PPE / Disclosure of PPE under IAS-16 (Property, Plant and equipment)

Question-61

Plant and Machinery A/C

1.1.09	b/d	500,000	1.3.09	Disposal	190,000
1.5.09	Cash	90,000			
1.9.09	Cash	120,000	31.12.09	c/d	520,000

Accumulated Depreciation – P and M A/C

	Disposal	30,083	1.1.09	b/d	170,000
31.12.09	c/d	184,084		Depreciation Exp	44,167

Vehicle A/C

1.1.09	b/d	900,000	1.6.09	Disposal	40,000
			31.12.09	c/d	860,000

Accumulated Dep. A/C – Vehicle

1.6.09	Disposal	11,000	1.1.09	b/d	300,000
31.12.09	c/d	376,667		Depreciation Exp	87,667

Required: Prepare a note of PPE / disclosure of PPE / fixed asset schedule from the above ledgers.

Question-62

Machinery account – At cost

1.1.20X9	b/d	52,950		Disposal	2,800
1.3.20X9	Cash	2,480	31.12.X9	c/d	52,630

Machinery account – Accumulated depreciation a/c

	Disposals	887	1.1.X9	b/d	28,350
31.12.X9	c/d	32,708		Depreciation	5,245

Office furniture account – At cost

1.1.20X9	b/d	2,860			
1.3.20X9	Cash	320	31.12.X9	c/d	3,180

Office furniture account – Accumulated depreciation a/c

			1.1.X9	b/d	1,490
31.12.X9	c/d	1,646		Depreciation	156

Required: Prepare a note of PPE / disclosure of PPE / fixed asset schedule from the above ledgers.

Question-63

6 buildings were purchased on 1.1.15 for Rs. 660 million. Useful life of buildings is 30 years and depreciation method is straight line. On 30.06.17, a building costing 66 million was sold for 85 million.

Required: Prepare asset a/e and accumulated depreciation a/c as on 31.12.17.

Year - end revaluation:

Question-64

Following information pertains to a building acquired by SK Limited (SKL) on 1 July 2012 for Rs. 360 million:

(i) The building is being depreciated on straight-line basis over 10 years.

(ii) SKL uses revaluation model for subsequent measurement of buildings. It accounts for revaluation on net replacement value method. The details of revaluations as carried out by independent value are as follows:

Revaluation date	Fair value (Rs. in million)
31 December 2013	323
31 December 2015	208
31 December 2017	167

(iii) There is no change in useful life of the building.

(iv) SKL transfers the maximum possible amount from the revaluation surplus to retained earnings on an annual basis.

(v) SKL's financial year ends on 31 December.

Required: Prepare entries to record revaluation surplus/loss on each of the above revaluation date. *(Entries to record depreciation expense, incremental depreciation and elimination of accumulated depreciation are not required).*

(11)

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Disposal of revalued assets:

Question-65

Moin purchased a plant for Rs. 300 million on 1 January 2010. The plant has an estimated useful life of 10 years and no residual value.

Revaluation date	Fair value
1 January 2011	Rs. 500 million

The plant is sold for Rs. 750 million on March 31, 2011.

Required: Prepare journal entries to record the above transactions.

Question-66

Cost of asset = 700
Date of purchase = 01.01.2017
Useful life = 15 years.
It is revalued on 01.01.2018 at Rs. 1,000. This asset is disposed off on 31.05.2018 for Rs. 1,050.

Required: Prepare journal entries to record the above transactions.

Question-67

Cost of asset = 500
Date of purchase = 01.01.2015
Useful life = 20 years
It is revalued on 01.01.2016 at Rs. 600. This asset is disposed off on 30.09.2016 for Rs. 450.

Required: Prepare journal entries to record the above transactions.

Question-68 (H·W)

Umer Limited (UL) uses the revaluation model for subsequent measurement of its property, plant and equipment and has a policy of revaluing its assets on an annual basis using the net replacement value method.

The following information pertains to UL's buildings:

(i) 10 buildings were acquired in same vicinity on 1 January 2015 at a cost of Rs.500 million. The useful life of the buildings on the date of acquisition was 10 years.
(ii) AL depreciates buildings on the straight line basis over their useful life.
(iii) The results of revaluations carried out during the last three years by Expert Valuation Service, an independent firm of valuers, are as follows:

Revaluation date	Fair value Rs. in million
1 January 2016	800
1 January 2017	300
1 January 2018	600

(iv) On 31 March 2018, 4 buildings were sold for Rs. 80 million each.

Required: Prepare a note on "Property, plant and equipment" (including comparative figures) for inclusion in UL's financial statements for the year ended 31 December 2018 in accordance with International Financial Reporting Standards. *(Ignore taxation)* **(13)**

Question-69 (HW)

KL uses the revaluation model for subsequent measurement of its property, plant and equipment.

(i) 5 buildings were acquired in same vicinity on 1 January 2010 at a cost of Rs.200 million. The useful life of the buildings on the date of acquisition was 20 years.

(ii) The results of revaluations carried out is as follows:

Revaluation date	**Fair value (Rs. in million)**
1 January 2016	480

(iii) On 31 March 2016, 3 buildings were sold for Rs. 30 million each.

Required: Prepare a note on "Property, plant and equipment" for the year ended 31 December 2016 in accordance with International Financial Reporting Standards. *(Ignore taxation)* (6)

Question-70

On 31 December 2018, Omega Chemicals Limited (OCL) changed its valuation model from cost to revaluation for its buildings. The following information pertains to its buildings as at 31 December 2018:

		Prior to revaluation as at 31-12-2018		
	Estimated useful life as originally estimated	**Cost**	**Accumulated depreciation***	**Revalued amount**
		--------------------------Rs. In million---------------------		
Office buildings	20 Years	600	150	800
*Including depreciation for the year ended 31 December 2018				

As per the report of the professional valuer, there was no change in estimated useful life of the buildings. OCL recorded revaluation effect for the office buildings on 31 December 2018 as per the valuation report.

On 1 April 2019, one of the office buildings was sold for Rs. 45 million. On 31 December 2018, written down value before revaluation and revalued amount of the sold building amounted to Rs. 80 million and Rs. 95 million respectively.

OCL uses straight line method of depreciation which is charged from the date the asset is available for use upto the date of disposal. Revaluation is to be accounted for by using net replacement value method.

Required: In the light of the requirements of the International Financial Reporting Standards, prepare accounting entries from the above information for the year ended 31 December 2019. (10)

Mid of the year revaluation:

Question-71

Usama Limited (UL) purchased a plant for Rs. 1,000 million on 1st January 2017. The plant has an estimated useful life of 10 years and no residual value.

UL uses revaluation model for subsequent measurement of its property, plant and equipment and accounts for revaluations on net replacement value method. The details of revaluations performed by an independent firm of valuers are as follows:

Revaluation date	**Fair value**
1st April,2017	Rs. 1,080 million

Required:
Prepare journal entries and note on "Property, plant and equipment" for inclusion in UL's financial statements for the year ended 31 December 2017 in accordance with International Financial Reporting Standards. *(Ignore taxation)*

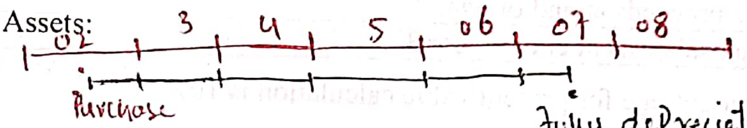
Understanding 'fully depreciated asset' concept using following question:

Question-72 ✓
Asif has provided you with following data:

	Cost as on 1.1.07	Accumulated Depreciation 1.1.07
Vehicle	600,000	250,000

Following is the breakup of above Assets:

Purchased on	1.7.02	150,000
Purchased on	1.7.05	250,000
Purchased on	1.1.06	200,000
		600,000



fully depreciate

can depreciate 6 month only.

- Life of all assets is 5 years.
- Additions made during year ended amounted to Rs. 90,000 as on 1.Mar.07.
- An asset having cost of Rs. 70,000 on 1.1.06 is disposed of on 31.3.07 for Rs. 30,000.

Required: Prepare relevant accounts for year ended Dec. 31, 2007; 2008 and 2009.

Gross replacement method of revaluation: This method involves restating proportionally the cost account and the accumulated depreciation so that the net carrying amount equals the net replacement value (fair value).

Question-73. ✓ B·V

A Hydroelectric power plant owned by a company is carried at Rs. 30 million (Cost of Rs. 40 million less accumulated depreciation of Rs. 10 million. The company's policy is to apply the revaluation model to all of its property, plant and equipment. A current valuation (fair value / revalued amount) of this plant is now Rs. 50 million.

Required: Pass journal entry of revaluation using
i) Net replacement method (Eliminate)
ii) Gross replacement method (Restate proportionately).

Revaluation under reducing balance method:

$\rightarrow rate = 1 - \sqrt[8]{\frac{1}{500}} = 54\%$

Question-74 ✓
A plant was purchased on July 1, 2014 for Rs. 500 million. It had an estimated useful life of 8 years with residual value of Rs. 1 million. Initially it was decided to depreciate this plant at 54% on reducing balance basis. It was revalued as follows:

Date	Fair value (Rs. in millions)
1/7/2016	90
1/7/2018	50

Required:
Pass journal entries for the year ended June 30, 2019.

IAS-36

Question 1: ✓

1) Following data relates to an asset:

Cost of asset (01.01.2011)	Rs.100
Useful life	10 years
Fair value (31.12.2017)	Rs.35
Cost to sell (31.12.2017)	Rs.7

2) Expected Cash flows in next 3 years are as follows:

Annual inflows	Rs.8
Annual outflows	Rs.2
Sale proceeds at end of year 3	Rs.11
Disposal costs at end of year 3	Rs.3

3) Discount rate for present value calculation is 10%

Required:

(a) Calculate impairment loss (if any) in respect of above asset as on December 31, 2017.

(b) Prepare note of PPE for the year ended December 31, 2017.

(c) Calculate depreciation expense for the year ended December 31, 2018.

Question-2 H/W ✓

Daewoo Bus has two Buses. Following Information is available for the purpose of impairment testing:

(i) The remaining useful life of both buses is expected to be 3 years standing on 31.12.12.

(ii) The fair values and written down values of the buses as on 31 December 2012 were as follows:

Buses	Cost	Acc. Dep.	WDV	Fair value	Incremental selling cost
	---------------------------Rs. in million---------------------------				
B-1	300	80	220	210	7
B-2	200	40	160	150	4

(iii) Expected cash flows from each Bus in next 3 years are as follows:

	B-1	B-2
	------Rs. in million------	
Annual inflows (fare from passengers)	105	55
Annual outflows (driver salary, petrol, token taxes etc.)	11	5
Sale proceeds at end of year 3	8	3
Disposal costs at end of year 3	2	1

(iv) Present value factor, based on a pre-tax discount factor of 10%, for year 1, year 2 and year 3 are 0.909, 0.826 and 0.751 respectively.

(11)

Required: Compute impairment (if any) on each Bus as on 31 December 2012.

Treatment of impairment loss when asset is carried at revaluation model

Question-3 ✓

Cost of Asset	Rs. 500
Date of Purchase	1 January 2010
Revalued Amount	800
Revaluation Date	1 January 2015
Recoverable Amount (31 December 2015)	Rs. 450
Useful life	8 year

Required:

Prepare accounting entries for the year ended December 31, 2015.

ACCRUAL BASIS OF ACCOUNTING

Question-1

Mr. Asif has paid electricity bill of Rs. 1,100 for 11 months.

The bill of Rs. 100 of last month of December is still payable/owing/due/outstanding.

Required:

Prepare electricity expense a/c.

Question-2

Mr. Umer acquired a shop on rent on 1 January 2008. The rent of each quarter is paid on 2nd day after the end of each quarter. Quarterly rent is Rs. 1,000.

Required:

Prepare rent expense a/c for year ended December 31, 2008.

Question-3

Mr. Absar acquired a shop on rent on 1st February 2008. The rent per month is Rs. 500. A quarterly payment of rent is to be made in advance starting from 1st February 2008.

Required:

Prepare expense a/c for year ended December 31, 2008.

Question-4

Following are the extracts from trial.

Mr. Arif
Trial balance (Extracts)
31.12.2008

	Dr.	Cr.
Loan (@14% per annum on 1.3.2008)		600,000
Interest on loan	20,000	
	Xxx	xxx

Required:
Prepare interest expense account?

Question-5 H/W

Following is the information

Mr. Mansoor
Trial balance (Extracts)
31.12.2009

	Dr.	Cr.
Loan		400,000
Interest on loan	10,000	
	xxx	xxx

Other Information:
Interest accrued is Rs. 20,000 at year end.
Required: Prepare interest expense A/c

H/w

Question-6

Following information is provided by Mr. Babar

Mr. Babar
Trial balance (Extracts)
31.12.2011

	Dr.	Cr.
Loan (@10%)		300,000
Interest on loan	18,000	
	xxx	xxx

Required:

Prepare interest expense A/C?

Question-7

Following are the extracts from trial.

Trial balance (Extracts)
31.12.2008

	Dr.	Cr.
Rent expense	90,000	
	xxx	xxx

Rent accrued at (owing at) December 31, 2008 is Rs. 12,000.

Required:

Prepare rent expense account?

Question-8

Following are the extracts from trial.

Trial balance (Extracts)
31.12.2008

	Dr.	Cr.
Insurance expense	84,000	
	xxx	xxx

Insurance prepaid at (paid in advance at) December 31, 2008 is Rs. 6,000.

Required:

Prepare insurance expense account?

Question-9

Following are the extracts from trial.

Trial balance (Extracts)
31.12.2008

	Dr.	Cr.
Insurance expense	110,000	

Insurance expense includes Rs. 90,000 annual payment of insurance covering period from 1.4.2008 – 1.4.2009.

Required:

Prepare insurance expense account?

Question-10

Following are the extracts from trial.

Trial balance (Extracts)
31.12.2008

	Dr.	Cr.
Insurance expense	50,000	

Insurance expense includes Rs. 24,000 annual payment of insurance for 6 months ended 28.02.2009.

Required: Prepare insurance expense account?

Question-11 ✓

The following is an extract from the trial balance of Uhura at 31 December 2013.

	Dr. Rs.(000)	Cr. Rs.(000)
Stationery	560	
Rent	900	
Rates	380	
Lighting and heating	590	
Insurance	260	
Wages and salaries	2,970	

- There was stationery still in hand at 31 December 2013 which had cost Rs.15,000.
- Rent of Rs.300,000 for the last three months of 2013 had not been paid and no entry has been made in the books at all for it.
- Of the rates, Rs.280,000 was for the year ended 31 March 2014. The remaining Rs.100,000 was for the three months ended 31 March 2013.
- Fuel had been delivered on 18 December 2013 at a cost of Rs.15,000 and had been consumed before the end of 2013. No invoice had been received for the Rs.15,000 fuel in 2013 and no entry has been made in the records of the business.
- Rs.70,000 of the insurance paid was in respect of insurance cover for the year 2014.
- Nothing was owing to employees for wages and salaries at the close of 2013.

Required:

Record the above information in the relevant accounts for the year ended 31 December 2012 and close the accounts.

Question-12 H/W

Mr. Amjad has hired a property on rent from Mr. Sameer. The details are given below:

	Per month
January 06 – June 06	500
July 06 – December 06	1,000
January 07 – June 07	1,500
July 07 – December 07	2,000
January 2008 onwards	2,000

- Rent for January 2006 – June 2006 was paid on June 30, 2006.
- Rent for July 2006 – September 30, 2006 was paid on September 30, 2006.
- Rent for October 2006 – June 30, 2007 was paid on June 30, 2007.
- Rent for July 2007 – March 31, 2008 was paid on July 1, 2007.
- Year end is December 31.

Required:

Calculate rent expense of Mr. Amjad for the year ended December 2006 and 2007

Answer - 5

Interest Expense

Cash	10,000	P/L (bal.)	30,000
Closing Payable	20,000		

P/L Extracts

Admin Expenses	
Interest on loan	30,000
B/S Extracts	
Loan Payable	400,000
Interest payable on loan	20,000

Note:

Here closing payable is given so P/L will be balancing figure. P/L figure cannot be calculated first because interest rate is not given.

Answer-6

Interest Expense

Cash	18,000	P/L (300,000 × 10%)	30,000
Closing Payable (bal.)	12,000		

P/L Extracts	
Admin Expenses	
Interest Expenses	30,000
B/S Extracts	
Loan Payable	300,000
Interest on loan payable	12,000

Note:

Here rate of loan is given so it is assumed that it is outstanding till start of year. As interest rate is given and cash paid is given in trial so closing payable will be balancing figure.

Answer-7

Rent Expense

Cash	90,000	P/L (bal.)	102,000
Rent payable (Closing Payable)	12,000		

	Dr.	Cr.
Rent expense	12,000	
Rent payable		12,000

P/L Extracts	
Admin Expenses	
Rent expense	102,000

B/S Extracts	
Current liability	
Rent Payable	12,000

Answer-8

Insurance expense

Cash	84,000	P/L (bal.)	78,000
		Prepaid insurance (Closing prepaid)	6,000

	Dr.	Cr.
Prepaid insurance	6,000	
Insurance expense		6,000

P/L Extracts		B/S Extracts	
Admin Expenses		Current asset	
Insurance expense	78,000	Prepaid insurance	6,000

Answer-9

Insurance expense

Cash	110,000	P/L (bal.)	87,500
		Prepaid insurance (Closing prepaid) (90,000/12 × 3)	22,500

	Dr.	Cr.
Prepaid insurance	22,500	
Insurance expense		22,500

P/L Extracts		B/S Extracts	
Admin Expenses		Current asset	
Insurance expense	87,500	Prepaid insurance	22,500

Answer-10

Insurance expense

Cash	50,000	P/L (bal.)	42,000
		Prepaid insurance (Closing prepaid) (24,000/6 × 2)	8,000

	Dr.	Cr.
Prepaid insurance	8,000	
Insurance expense		8,000

P/L Extracts		B/S Extracts	
Admin Expenses		Current asset	
Insurance expense	42,000	Prepaid insurance	8,000

Answer-12 (Mr. Amjad)

Rent expense – 2006

Dr.				Cr.
	Opening prepaid	-	Opening payable	-
30.06.06	Cash (500 × 6)	3,000	P&L (Bal.)	9,000
30.09.06	Cash (1,000 × 3)	3,000		
	Closing payable (1,000 × 3)	3,000	Closing prepaid	-

Rent expense - 2007

Dr.				Cr.
	Opening prepaid	-	Opening payable	3,000
30.06.07	Cash (1,000 × 3) + (1,500 × 6)	12,000	P&L (Bal.)	21,000
01.07.07	Cash (2,000 × 6) + (2,000 × 3)	18,000		
	Closing payable	-	Closing prepaid (2,000 × 3)	6,000

Question-13 H/W

Mr. Afridi rented out his shop on 1 July 2014. Quarterly rent is received on the first day after the end of each quarter. Quarterly rent is Rs. 15,000.

Required:

Prepare rental income a/c for year ended June 30, 2015.

Question-14 H/W

Mr. Fakhar Zaman rented out his shop on 1 August 2014. Rent per month is Rs.2,500. Tenant pays quarterly rent in advance starting from 1 August 2014.

Required:

Prepare rental income a/c for year ended June 30, 2015.

Question-15 H/W

Mr. Misbah rented out 3 offices in his plaza for a monthly rent of 25,000 each on 1 March 2015. He receives quarterly rent in advance starting from 2 March 2015.

Required:

Prepare rental income a/c for year ended December 31, 2015.

Question-16 H/W

Trial balance extract of Mr. Abdur Razaq is as follows:

Mr. Abdur Razaq
Trial Balance (Extract)
As on December 31, 2015

	Dr.	Cr.
Loan to Employees (@ 12% on 01.02.15)	1,250,000	
Interest on loan to employees		50,000
	xxx	xxx

Required:

Prepare interest income a/c, P/L and BS extracts for year ended December 31, 2015.

Question-17 H/W

Following is the extract of trial balance of Mr. Wasim Akram

Mr. Wasim Akram
Trial Balance (Extract)
As on June 30, 2015

	Dr.	Cr.
Rental income		315,000
	xxx	xxx

Mr. Wasim Akram has rented out upper story of his residential house on 01.11.2014 for a monthly rent of 35,000 and the terms of agreement require advance payment of rent for each quarter by the tenant.

Required:

Prepare rental income a/c, P/L and BS extracts for year ended June 30, 2015.

Answer-14

Rental Income

Date	Particulars	Rs.	Date	Particulars	Rs.
1-Jul-14	Opening receivable	-	1-Jul-14	Opening unearned	-
			1-Aug-14	Cash	7,500
30-Jun-15	P/L (Balancing fig.)	27,500	1-Nov-15	Cash	7,500
			1-Feb-15	Cash	7,500
			1-May-15	Cash	7,500
30-Jun-15	Closing unearned (7500 × 1/3)	2,500	30-Jun-15	Closing receivable	-
		30,000			30,000

Answer-15

Rental Income

Date	Particulars	Rs.	Date	Particulars	Rs.
1-Jan-15	Opening receivable	-	1-Jan-15	Opening unearned	-
			2-Mar-15	Cash	225,000
31-Dec-15	P/L (Balancing fig.)	750,000	2-Jun-15	Cash	225,000
			2-Sep-15	Cash	225,000
			2-Dec-15	Cash	225,000
31-Dec-15	Closing unearned (225,000 × 2/3)	150,000	31-Dec-15	Closing receivable	
		900,000			900,000

Answer-16

Interest Income

Date	Particulars	Rs.	Date	Particulars	Rs.
1-Jan-15	Opening receivable	-	1-Jan-15	Opening unearned	-
31.12.15	P/L (1,250,000 × 12% × 11/12)	137,500		Cash	50,000
31-Dec-15	Closing unearned	-	31-Dec-15	Closing receivable	87,500
		137,500			137,500

Mr. Abdur Razaq
P/L Extract
For the year ended December 31, 2015

	Rs.
Other Income	
Interest on loan to employees	137,500

Mr. Abdur Razaq
B/S Extract
As on December 31, 2015

	Rs.
Current Assets	
Loan to employees	1,250,000
Interest receivable	87,500

Answer-17

Rental Income

Date	Particulars	Rs.	Date	Particulars	Rs.
1-Jul-14	Opening receivable	-	1-Jul-14	Opening unearned	-
30-Jun-15	P/L (Balancing fig.)	280,000	1-Nov-14	Cash	105,000
			1-Feb-15	Cash	105,000
30-Jun-15	Closing unearned (105,000 × 1/3)	35,000	1-May-15	Cash	105,000
		315,000			315,000

Mr. Wasim Akram
P/L Extract
For the year ended June 30, 2015

	Rs.
Other Income	
Rental income	280,000

Mr. Wasim Akram
BS Extract
As on June 30, 2015

	Rs.
Current Liabilities	
Unearned / Deferred rental Inc.	35,000

IAS-23

Question-1 H/W ✓

Loan obtained	1.March.18
Work Started	1.March.18

Payment details to contractor:

1.March.18	50,000
1.June.18	20,000
1.Nov.18	10,000

Construction is completed on 1.Nov.18. Loan amount is Rs. 80,000 and interest is payable at 12% p.a.

Required:

Prepare P/L and Balance sheet for the year ended 31.12.18 – 31.12.20. Assuming life of building is 10 years and loan is repayable in 2025.

Question-2 H/W

Loan received on 1.1.15	Rs. 20 million
Project Started on	1.2.15

Payment details to contractor:

Date	Rs. in Millions
1.2.15	8
1.6.15	10
1.10.15	2

Project is completed on 1.10.15. Interest rate is 20% and surplus funds are invested at 15%.

Required:

Calculate borrowing cost to be capitalized and cost of building.

Question-3 H/W

Loan received on 1.1.17	Rs. 100 million
Project Started on	1.3.17

Payment details to contractor:

Date	Rs. in Millions
1.3.17	50
1.5.17	20
1.11.17	30

Project is completed on 1.11.17. Interest rate is 14% and surplus funds are invested at 8%.

Required:

Calculate borrowing cost to be capitalized and cost of building.

IAS-40

Question 1:

A property (Land and building) is purchased for its investment potential on 1.1.11 for Rs. 70 million (including land 30 million). Life of building is 10 years.

Fair values of property as on:

31.12.11	95 million
31.12.12	65 million

Required: Pass journal entries and prepare financial statement extracts for the years ended 31.12.11 and 31.12.12 assuming:

(i) Cost model is followed;
(ii) Fair value model is followed.

Question 2:

Assume that the property in Question 1 is sold for Rs. 75 million on 1.2.13.

Required: Pass journal entries and prepare financial statement extracts for the years ended 31.12.13 assuming:

(i) Cost model is followed;
(ii) Fair value model is followed.

Question 3:

Snake Limited is in the construction industry. It constructs buildings for resale, for leasing and for private use.

1. A building that snake limited had constructed in Islamabad (at a cost of Rs. 1,000,000) had been on the market for 2 years and was still not sold. On 1 March 2015, Snake Limited took it off the market and leased (rented out) it instead. It was leased on 1 March 2015. Its fair value was Rs. 1,500,000 on December 31, 2015 and Rs. 1,000,000 on December 31, 2014.
2. The fair value of a building in Balochistan (rented out to tenants) has never been determinable and this building was completed on 1 January 2012 at a cost of Rs. 5,000,000. Its total estimated useful life is 10 years and its residual value Rs.1,000,000. Both estimates have remained unchanged.
3. On 30 September 2015, snake limited evicted the tenants from a building in Karachi and moved its head office into to building instead. On this day the fair value was Rs. 4,000,000 the remaining useful life was 5 years and residual value was Rs. 500,000. The fair value of this building was Rs. 3,000,000 on 31 December 2014.
4. On 30 September 2015, Snake Limited leased out the old head office building in Lahore. The original cost was Rs. 4,000,000 (acquired on 30 September 2013). On which date the total useful life was 10 years and its residual value was nil. The fair value was Rs. 3,700,000 on 31 December 2015. The fair value on 30 September 2015 was equal to its carrying amount.
5. Rentals earned from the investment properties totaled Rs. 2,000,000.
6. Snake limited applies the fair value model to its investment properties and the cost model to its property plant and equipment.

Required: Show the investment property note in snake Limited's financial statements for the year ended 31 December 2015. (Ignore tax and comparatives) (14)

IAS-20

Question 1: grant for past expenses

The government offers companies that incur certain labor expenditure cash equal to 30% of the expenditure. Ahmed limited incurred 30 000 of labor expenses during 2010 and presented the government with an audited statement of expenses on 31 March 2011.

Required:

Show the related journal entries in the records of Ahmed Limited for the year ended 31.12.2010 and 31.12.2011assuming that the grant becomes receivable:

(a) In the year in which the company incurs the specified expenses;
(b) In the year in which the company provides the government with an audited statement of expenses.

Question 2: grant for future expenses – direct approach

The government grants a company a cash of 10 000 to contribute 10% towards 100 000 of future wage expenditure. The grant was received on 1 January 2011.

Required:

Show the journal entries for the year ended 31 December 2011 assuming that the company policy is to present such a grant as grant income (i.e. direct income approach):

(a) The company incurs 100 000 wage expenditure in 2011;
(b) The company incurs 20 000 of the related wage expenditure in the year ended 31 December 2011 and 80 000 thereof in the year ended 31 December 2012.

Question 3: grant for future expenses – indirect approach

The government grants a company a cash of 10 000 to contribute 10% towards future specified wages. The grant was received on 1 January 2011. The year-end is 31 December.

Required:

Show the journal entries assuming that the company policy is to recognise government grants as a credit to the related expense (i.e. indirect income approach):

(a) The company incurs all intended expenditure in the year ended 31 December 2011;
(b) The company incurs 20% of the wages in 2011 and 80% in 2012.

Question 4: grant related to a depreciable asset – direct approach

The government grants a company a cash sum of 12 000 on 1 January 2011 to assist in the acquisition of a nuclear plant. The nuclear plant was acquired on 1 January 2011 for 90 000, was available for use immediately and has a useful life of 3 years (the plant has a nil residual value).

Required:

Show the journal entries in the years ended 31 December 2011, 2012 and 2013. The company has the policy of recognizing government grants directly in income.

Question 5: grant related to a depreciable asset – indirect approach

The government grants a company a cash of 12 000 on 1 January 2011 to assist in the acquisition of a nuclear plant. The nuclear plant:

- was acquired on 1 January 2011 for 90 000;
- was available for use immediately; and
- has a useful life of 3 years (the plant has a nil residual value).

Required:

Show the journal entries in the years ended 31 December 2011, 2012 and 2013. The company has the policy of recognizing government grants indirectly in income (i.e. as a reduction of the cost of the asset).

Question 6: grant related to a non-depreciable asset – direct approach

The government grants a company a cash of 12 000 on 1 January 2011 to assist in the acquisition of land. A condition of the grant is that the company builds a factory on the land. The land was acquired on 1 January 2011 for 90 000. Land is not depreciated. The factory was completed on 31 March 2011 (total building costs of 300 000 were paid in cash on this date), was available for use immediately and has a useful life of 3 years (the factory has a nil residual value).

Required:

Show the journal entries in the years ended 31 December 2011, 2012, 2013 and 2014. The company's policy is to recognise grants directly in income.

Question 7: grant asset – fair value or nominal amount

Pakistani government grants the company a licence to fish off the coast of Gwadar. The fair value of the licence is 50 000 and the company is required to pay a nominal amount of 1 000 for the licence.

Required:

Show the journal entries assuming:

(a) The company chooses to measure the licence at its fair value.

(b) The company chooses to measure the licence at its nominal amount.

Question 8: grant is a package deal

The government grants a company a cash of 120 000 on 1 January 2011. The grant relates to two aspects:

- 30 000 is a cash sum as immediate financial support with no associated future costs;
- 90 000 is to assist in the future acquisition of vehicles.

The vehicles were acquired on 1 January 2011 for 210 000. The vehicles were available for use immediately and have a useful life of 3 years (the vehicles all have nil residual values).

The company has decided to follow the direct Approach related to vehicle grant; i.e recognize separately as income in statement of profit or loss.

Required:

Show the journal entries in the years ended 31 December 2011, 2012 and 2013.

Question 9: grant related to expenses – repaid

The local government granted the company 10 000 on 1 January 2011 to assist in the financing of mining expenses. The grant was conditional upon the company mining for a period of at least two years. Initially it was expected that company can meet this condition and therefore it was decided to recognize the grant as income equally over two years.

The company ceased mining on 30 September 2012 due to unforeseen circumstances. The terms of the grant required that the grant be repaid immediately and in full.

Mining expenses incurred to date were as follows:

2011: 80 000

2012: 60 000

Required:

Show the journal entries assuming:

(a) The company recognises grants directly as 'grant income'.

(b) The company recognises grants indirectly as income by reducing the related expense.

Question 10:

ABC Co. receive a grant of Rs. 40 million in 2002 to acquire a water cleaning station. The cost of station is Rs 100 million and its useful life is 8 years. ABC Co. acquired the station on 1.July.2002 and year end is 31 December.

Required:

Pass journal entries and prepare financial statement extracts for the years ended 31.12.2002 and 2003 under both available options for accounting of grant related to fixed assets.

Question 11

ABC Company received a grant of Rs. 10 million in 2002 to cover the expenses for environmental measures taken by ABC Company during 2002 to 2005. ABC Company assumes to spend Rs. 4 million each in 2002; 2003 & 2004 and Rs. 2 million in 2005 (total 14 million).

Required:

Pass journal entries and prepare financial statement extracts for the years ended 31.12.2002 and 2003 under both available options for accounting of grant related to expenses.

CORRECTION OF ERRORS

Inventories (IAS-2)

Question-1

Umer Ltd. uses the perpetual inventory system. The beginning inventory of tooth pastes and data pertaining to its purchases and sales during February, 2012 are shown below:

Feb 1	Opening stock	5 Units		@ Rs.	28
Purchases					
Feb 4	Purchase	5 Units	Units	@Rs.	32
Feb 18	Purchase	10 Units	Units	@Rs.	34
Feb 27	Purchase	20 Units	Units	@Rs.	40
Sales					
Feb 19	Sale	8 Units	Units	@Rs.	60
Feb 28	Sale	24 Units	Units	@Rs.	60

(i) **Additional information**

Entertainment expense	Rs. 50
Utility expenses	Rs. 80
Repair expenses	Rs. 70

(ii) All purchase and sale are on credit, payment received Rs. 1,520. Payment made to creditor Rs. 1,200. Expenses were paid in cash basis. Opening cash was Rs. 100 and opening Capital was Rs. 240.

Required:

(i) Calculate cost of closing stock (Prepare ledger card under FIFO and Weighted average cost method);

(ii) Prepare T- account(s) under perpetual system;

(iii) Prepare trial balance for the month of February;

(iv) Prepare income statement and balance sheet for the above period.

Question-2

Shujat Ltd. uses the periodic inventory system. The beginning inventory of tooth pastes and data pertaining to its purchases and sales during February, 2012 are shown below:

Feb 1	Opening stock	5	Units	@ Rs.	28
Purchases					
Feb 4	Purchase	5	Units	@Rs.	32
Feb 18	Purchase	10	Units	@Rs.	34
Feb 27	Purchase	20	Units	@Rs.	40

Closing stock 8 units as per physical count.

(i) **Additional information**

Entertainment expense	Rs. 50
Utility expenses	Rs. 80
Repair expenses	Rs. 70

(ii) All purchase and sale are on credit, payment received Rs. 1,520. Payment made to creditor Rs. 1,200. Expenses were paid in cash basis. Opening cash was Rs. 100 and opening Capital was Rs. 240.

(iii) Sale price per unit is Rs. 60.

Required:

(i) Calculate cost of closing stock (Shortcut);
(ii) Prepare T- account (s) under perpetual system;
(iii) Prepare trial balance for the month of February;
(iv) Prepare income statement and balance sheet for the above period.

Question 3:

Mr. Sheheriar started a business of selling mobiles in Hafeez center. As on 31-12-2015 he had 10 mobiles in his closing stock which were purchased for Rs. 70,000 each. Normally he sells each mobiles for Rs. 85,000. On the evening of 31-12-2015 a crow attacked and 2 mobiles fell down and got badly damaged. These damaged mobiles could be sold for Rs. 75,000 each after incurring a repair cost of Rs. 10,000 each and a selling cost of Rs. 5,000 each.

Required: Calculate the value of closing stock.

Question-4

The closing inventory at cost of a company at 31 January 20X3 amounted to Rs.284,700. The following items were included at cost in the total:

1. 400 coats, which had cost Rs.80 each and normally sold for Rs.150 each. Owing to a defect in manufacture, they were all sold after 31 January 20X3 at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.
2. 800 shirts, which had cost Rs.20 each. These too were found to be defective. Remedial work in February 20X3 cost Rs.5 per shirt, and selling expenses were Rs.1 per shirt. They were sold for Rs.28 each.

What should the inventory value be after considering the above item?

Question-5

At 30 September 20X3 the closing inventory of a company amounted to Rs.386,400. The following items were included in this total at cost:

1. 1,000 items which had cost Rs.18 each. These items were all sold in October 20X3 for Rs.15 each, with selling expenses of Rs.800.
2. Five items which had been in inventory for many years and which had been purchased for Rs.100 each, sold in October 20X3 for Rs.1,000 each, net of selling expenses.

What figure should appear in the company's statement of financial position at 30 September 20X3 for inventory?

Trade discount and cash discount:

Question:6

ABC Co. bought goods on 1.January.20 having list price of 100,000 on credit. Due to bulk quantity, supplier provided a 5% trade discount. Supplier further agreed to provide a 10% cash discount if the payment is made within 20 days. ABC Co. made the payment on 15.January.20.

Required:

Pass journal entries on relevant dates in:

(i) The books of Buyer (ABC Co.);
(ii) The books of Seller (Supplier).

Markup / margin examples:

(i) Cost of goods is Rs.800.000. "Goods are sold at a profit of 20% on cost" or "Goods are sold at 20% above cost" or "Sales are made at cost plus 20%" or "Goods were sold at a markup of 20% on cost/cost of sales" or "Goods are sold at 20% mark-up."

Required: Calculate sales.

(ii) Cost is Rs.50,000. Goods are sold at 30% above cost.

Required: Calculate sales.

(iii) Sale is Rs.30,000. Goods are sold at 10% markup.

Required: Calculate cost of sales.

(iv) Cost of goods is Rs.400,000. "Sales were made at a profit of 20% on sales" or "Gross profit is made at 20% on sales value" or "There was a fixed margin of gross profit of 20% on sales" or "Sales were effected at a uniform rate of gross profit at 20% on sales" or "Goods are sold at 20% margin."

Required: Calculate sales.

(v) Cost is Rs.40,000. Goods are sold at a margin of 25%.

Required: Calculate sales.

(vi) Sale price is Rs.100,000. Goods are sold at a profit of 30% on sale price.
Required: Calculate cost.

Bad and doubtful debts:

(i) Following is the data of a business for the 1^{st} year of its operations:

Sales = 10,000; Cash received = 3,000; Provision for doubtful debt rate is 10%;

Year-end is 31 December 2018.

Required: Prepare Debtors a/c and provision for doubtful debts a/c along with income statement and balance sheet extracts for the year ended 31.12.18.

(ii) Continuing from example (i), assume that business is closed in 2019 and there is no more sale in year 2019.

Required: Prepare Debtors a/c and provision for doubtful debts a/c along with income statement and balance sheet extracts for the year ended 31.12.19 in following independent scenarios:

(a) Cash received is Rs. 6,300 and actual bad debts to be written off are Rs. 700;
(b) Cash received is Rs. 7,000 and actual bad debts to be written off are Rs. 1,000;
(c) Cash received is Rs. 6,700 and actual bad debts to be written off are Rs. 300.

Question-7

Following is the data of a business for the 1^{st} year of its operations:

Sales = 10,000; Cash received = 3,000; Provision for doubtful debt rate is 10%;

Year-end is 31 December 2018.

Required: Prepare Debtors a/c and provision for doubtful debts a/c along with income statement and balance sheet extracts for the year ended 31.12.18.

Question-8

Continuing from example (i), following data is available for the next year:

Sales = 20,000; Cash received = 8,000; Actual bad debts = 300; Provision for doubtful debt rate is 10%; Year-end is 31 December 2019.

Required: Prepare Debtors a/c and provision for doubtful debts a/c along with income statement and balance sheet extracts for the year ended 31.12.19.

Revision of Bank Reconciliation Statement:

Question-9

From the following details, prepare the bank reconciliation statement of Rise canteen shop on 30th June, 2011.

Bank Statement

Date	Particulars	Withdrawals	Deposits	Balance	
2011		----------------Rs.----------------			
Jun 1	Balance b/d			11,500	Cr.
June 4	Debtor- Teacher A		8,000	19,500	Cr.
June 6	Creditor- Aamir	900		18,600	Cr.
June 23	Creditor- Anjum	2,700		15,900	Cr.
June 28	Bank charges	400		15,500	Cr.

Cash Book (Bank Column Only)

Date	Particulars	Rs.	Date	Particulars	Rs.
June 1	Balance b/d	11,500	June 3	Creditor- Aamir	900
June 1	Debtor- Teacher A	8,000	June 15	Creditor- Zameer	850
June 28	Debtor- Teacher R	750	June 18	Creditor- Anjum	2,700
			June 28	Creditor- Shakoor	4,000
			June 30	c/d	11,800
		20,250			20,250

From the following details, prepare the bank reconciliation statement of Rise canteen shop on 30th June, 2011.

Bank Statement

Date	Particulars	Withdrawals	Deposits	Balance	
2011		---------------Rs.---------------			
June 1	Balance b/d			11,500	Cr.
June 4	Debtor- Teacher A		750	12,250	Cr.
June 20	Debtor- Teacher R (Credit transfer)		3,000	15,250	Cr.
June 23	Creditor- Juices	29,700		(14,450)	Dr.
June 23	Direct debit for utility expense	300		(14,750)	Dr.
June 30	Interest on overdraft	40		(14,790)	Dr.
June 30	Dividend Income		600	(14,190)	Dr.

Cash Book (Bank Column Only)

Date	Particulars	Rs.	Date	Particulars	Rs.
June 1	Balance b/d	11,500	June 3	Creditor- Bottle	900
June 1	Debtor- Teacher A	750	June 18	Creditor- Juices	29,700
June 18	Debtor- Teacher Q	1,600			
June 30	Balance c/d	16,750			
		35,290			35,290

Answer:9

Cash Book – Adjusted

Dr.	Rs.		Cr. Rs.
Debtor	3,000	Unadjusted closing balance	16,750
Dividend income	600	Utility expense	300
		Interest expense	40
Adjusted closing balance (bal.)	13,490		

Bank Reconciliation Statement

	Rs.
Balance as per adjusted cash book	(13,490)
Add: Unpresented cheques	900
Less: Uncredited cheques .	(1,600)
Balance as per bank statement Cr./(Dr.)	(14,190)

STATEMENT OF CHANGES IN EQUITY

Question 1

Company X started a business in January 2017. Following relevant information is available:

(i) Started business with share capital of Rs.50 million.
(ii) Face value is Rs.10 per share.
(iii) Profit after tax 2017: Rs.30 million, 2018: Rs.45 million.
(iv) In March 2018 Final Dividend of 2017 is announced at 15% (cash dividend).
(v) In September 2018 interim dividend is announced as follows:
4% cash dividend;
6% bonus dividend.
(vi) In November 2018 20% right shares were issued at Rs.13 each (1 new share for every 5 held).
(vii) At year end management decided to transfer Rs.12 million from retained earnings to general reserve.

Required:

Prepare statement of changes in equity for year ended 31. December.2018.

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